



# **How SAP® Financial Consolidation Starter Kit Meets IFRS**

May 2019

**THE BEST RUN**



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# Executive Summary

## ABOUT THIS DOCUMENT

The globalization of capital markets calls for the convergence of accounting standards around the world. The International Accounting Standards Board (IASB) is in charge of developing the International Financial Reporting Standards (IFRS). Today more than 100 countries require the use of IFRS by public companies, amongst which the European Union, Australia, Brazil or Canada, while most other jurisdictions permit the use of IFRS<sup>1</sup>.

In this context this document describes how SAP® Financial Consolidation, starter kit for IFRS has been configured to meet IFRS. Please note that IFRS requirements as described in this document only cover highlights of the accounting standards. The present document should not be considered as a substitute for a comprehensive reading of IFRS.

Financial Consolidation is part of SAP enterprise performance management (EPM) solutions. This product addresses financial consolidation requirements and can be integrated into both SAP and non-SAP software environments and can load data from any general ledger application.

SAP starter kit for IFRS is a complete configuration on top of Financial Consolidation – from data collection to publishing of financial statements – designed to perform, validate and publish a statutory consolidation in accordance with IFRS. The starter kit for IFRS provides:

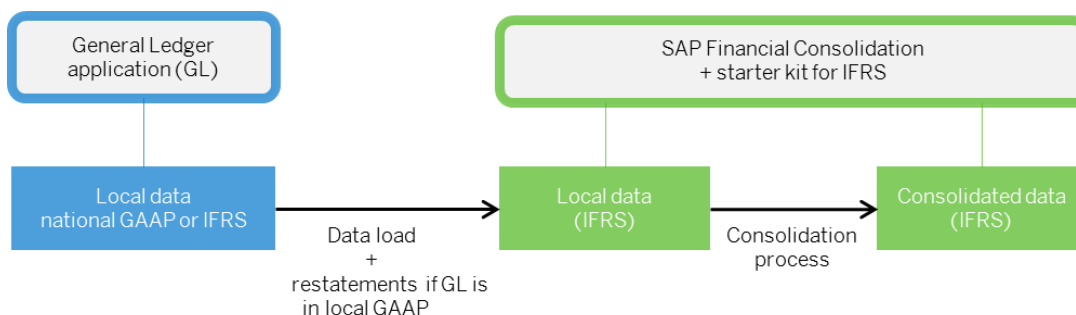
- A chart of accounts
- Reports for data entry at local level and data retrieval at the group level, including publishable financial statements
- Controls to validate data entered or loaded into the application
- A comprehensive set of consolidation rules designed to produce consolidated data

The starter kit is provided to SAP Financial Consolidation customers at no additional charge and can be downloaded from support.sap.com<sup>2</sup>. This document refers to the starter kit delivered in March 2019 (SP8) for version 10.1 of SAP Financial Consolidation.

## IFRS IN THE STARTER KIT

IFRS apply equally to consolidated and separate (individual) financial statements, except for some requirements that specifically address one or the other. For example, IFRS 10 is dedicated to consolidated financial statements whereas IAS 27 only addresses separate financial statements. In practice, the use of IFRS varies from country to country according to local regulations. For example, in the European Union, EU-endorsed IFRS are mandatory for listed companies' consolidated statements whereas national GAAP usually still apply to individual statements and the unlisted sector.

In the starter kit for IFRS, local data, as loaded in packages<sup>3</sup> or after manual adjustments, is supposed to be IFRS compliant. It means that assets and liabilities, revenues, expenses, gains and losses are measured in accordance with IFRS requirements. Consolidation procedures embedded in the starter kit are compliant with IFRS.



<sup>1</sup> See IFRS Foundation website for more information ([www.ifrs.org](http://www.ifrs.org))

<sup>2</sup> Choose « Access my launchpad » then « software downloads ». Select « support packages and patches » before searching « SAP Financial Consolidation » in the alphabetical index.

<sup>3</sup> In Financial Consolidation, a package is a comprehensive set of data entry schedules that enables consolidated entities to enter their data (individual accounts) at local level.

To put it simple, starter kit compliance with IFRS is achieved in two ways:

- Accounting schemes that derive from IFRS requirements should be provided for in the starter kit
- The consolidation process should comply with IFRS requirements as described in IFRS 10

Regarding accounting schemes, it should be first reminded that no IFRS gives detailed accounting schemes (because there is no IFRS chart of accounts). However, the accounting requirements can – more or less easily – result in accounting schemes.

#### Example – Revenue recognition

The accounting scheme that can be derived from IFRS 15's requirements would be as follows:

	<i>Debit</i>	<i>Credit</i>
Revenue (P&L)		x
Cash (if received) or receivables	x	

In the starter kit, providing for accounting schemes means that:

- Corresponding accounts exist, and
- Those accounts are linked with appropriate flows in the category scenario.

Continuing the example presented above, the corresponding accounting scheme would be as follows:

<i>Account</i>	<i>Flow</i>	<i>Debit</i>	<i>Credit</i>
P1110 Revenue	Y99 (Year-to-date)		x
A2210 Trade receivables, Gross	F15 (Net variation)	x	
A2610 Cash on hand	F15 (Net variation)	x	

Even though starter kit accounting schemes are presented in the form of accounting entries in this document (for a better understanding), it does not mean that corresponding data should be entered using manual journal entries. Most of them have been booked in local statements and are therefore entered in the packages at local level. The input reports available in the packages are designed to reflect the accounting schemes embedded in the category scenario.

## HOW TO READ THIS DOCUMENT

This document is sorted by standard in alphabetical order from IAS 1 to IFRS 17. Some standards are not addressed because they are not covered in the starter kit. The following section lists all standards in issue, shows whether each of them is covered or not in the starter kit and explains for those that are not covered the reasons that motivate this situation.

For each standard, a reminder of the main requirements is presented and followed by the practical consequences in the starter kit. Each reference to a standard is displayed as follows: [name of the standard].[paragraph number]. For example, IAS1.54 means paragraph 54 of IAS 1. As IFRS are constantly evolving the version that has been analyzed is mentioned for each standard.

As regards the starter kit features, this document refers - when necessary - to the comprehensive documentation available on our SAP Help Portal<sup>1</sup>. It also refers to the reference dataset delivered within the starter kit to illustrate key features. The corresponding consolidated data are defined as follows:

<u>CATEGORY</u>	<u>DATA ENTRY PERIOD</u>	<u>SCOPE</u>	<u>VARIANT</u>	<u>CURRENCY</u>
A	2018.12	GROUP	IFRSYTD	EUR
A	2019.12	GROUP	IFRSYTD	EUR

<sup>1</sup> <http://help.sap.com> (section Financial Management)

# List of IFRS Addressed by the Starter Kit

IFRSs (in issue at 1 January 2019)	Covered	Not covered
IAS 1 - Presentation of Financial Statements	●	
IAS 2 - Inventories	●	
IAS 7 - Statement of Cash Flows	●	
IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors	●	
IAS 10 - Events after the Reporting Period	●	
IAS 12 - Income Taxes	●	
IAS 16 - Property, Plant and Equipment	●	
IAS 19 - Employee Benefits	●	
IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance	●	
IAS 21 - The Effects of Changes in Foreign Exchange Rates	●	
IAS 23 - Borrowing Costs	●	
IAS 24 - Related Party Disclosures		(i)
IAS 26 - Accounting and Reporting by Retirement Benefit Plans		(ii)
IAS 27 - Separate Financial Statements	●	
IAS 28 - Investments in Associates and Joint Ventures	●	
IAS 29 - Financial Reporting in Hyperinflationary Economies	●	
IAS 32 - Financial Instruments: Presentation	●	
IAS 33 - Earnings per Share		(i)
IAS 34 - Interim Financial Reporting	●	
IAS 36 - Impairment of Assets	●	
IAS 37 - Provisions, Contingent Liabilities and Contingent Assets	●	
IAS 38 - Intangible Assets	●	
IAS 39 - Financial Instruments (Recognition and Measurement)	●	
IAS 40 - Investment Property	●	
IAS 41 - Agriculture		(ii)
IFRS 1 - First-time Adoption of International Financial Reporting Standards		(iii)
IFRS 2 - Share-based Payment	●	
IFRS 3 - Business Combinations	●	
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	●	
IFRS 6 - Exploration for and Evaluation of Mineral resources		(ii)
IFRS 7 - Financial Instruments: Disclosures		(i)
IFRS 8 - Operating Segments	●	
IFRS 9 - Financial Instruments	●	
IFRS 10 - Consolidated Financial Statements	●	
IFRS 11 - Joint Arrangements	●	
IFRS 12 - Disclosures of Interests in Other Entities		(i)
IFRS 13 - Fair Value Measurement		(iv)
IFRS 14 - Regulatory Deferral Accounts		(v)

IFRSs (in issue at 1 January 2019)	Covered	Not covered
IFRS 15 – Revenue from Contracts with Customers	●	
IFRS 16 – Leases	●	
IFRS 17 – Insurance Contracts		(ii)

- (i) The starter kit does not provide for notes to be disclosed in the financial statements (see IAS 1). Therefore the standards that only prescribe disclosures (as opposed to accounting requirements) are not covered by the starter kit. This is the case for IAS 24, IAS 33, IFRS 7 and IFRS 12.
- (ii) IAS 26 (retirement benefit plans), IAS 41 (agriculture), IFRS 6 (extraction) and IFRS 17 (Insurance Contracts) are industry-specific standards. The starter kit is a generic one and does not address requirements specific to some industries.
- (iii) IFRS 1 sets out principles that only apply to the first financial statements published in accordance with IFRS. For more information about the transition to IFRS and the way the starter kit helps, please consult the dedicated documentation available on [SAP Community Network](#)
- (iv) IFRS 13 (Fair value Measurement) is not dealt with as it is not an accounting standard but rather a guidance on how to apply properly other IFRSs that require or permit the use of fair value measurement.
- (v) IFRS 14 is an interim standard that allows first-time adopters to maintain their current accounting policies regarding deferral accounts until the comprehensive rate-regulated activities project is completed. The scope of this standard is too limited (rate-regulated activities and first-time adopters) to be covered by the starter kit.

# IAS 1 | Presentation of Financial Statements<sup>1</sup>

According to IAS 1.10, a complete set of financial statements comprises:

- a statement of financial position,
- a statement of profit or loss and other comprehensive income,
- a statement of changes in equity,
- a statement of cash flows and
- notes, comprising significant accounting policies and other explanatory information.

As regards the statement of cash flows, IAS 1 only points out the obligation to present it but refers to IAS 7 for detailed requirements. For the other statements, IAS 1 gives overall guidance and lists minimum disclosures to be presented. However it does not prescribe any format.

## Statement of financial position

### REQUIREMENTS

As a minimum, the statement of financial position includes line items that present the following amounts (IAS 1.54):

- (a) Property, plant and equipment,
- (b) Investment property,
- (c) Intangible assets,
- (d) Financial assets (excluding amounts shown under (e), (h) and (i)),
- (da) Groups of contracts within the scope of IFRS 17 that are assets, disaggregated as required by IFRS 17<sup>2</sup>
- (e) Investments accounted for using the equity method,
- (f) Biological assets,
- (g) Inventories,
- (h) Trade and other receivables,
- (i) Cash and cash equivalents,
- (j) Total of assets classified as held for sale and assets included in disposal groups in accordance with IFRS 5,
- (k) Trade and other payables,
- (l) Provisions,
- (m) Financial liabilities excluding amounts shown under (k) and (l),
- (mn) Groups of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by IFRS 17<sup>2</sup>
- (n) Liabilities and assets for current tax, as defined in IAS 12,
- (o) Deferred tax liabilities and deferred tax assets, as defined in IAS 12,
- (p) Liabilities included in disposal groups classified as held for sale in accordance with IFRS 5,
- (q) Non-controlling interests, presented within equity and
- (r) Issued capital and reserves attributable to owners of the parent.

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<sup>1</sup> Issued: September 1997. Last Amendments: May 2017

<sup>2</sup> Insurance contracts standard, only insurance companies are concerned

Besides, an entity should present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant (IAS 1.60).

## IN PRACTICE

IAS 1 gives a list of minimum disclosures and additionally requires presenting separately current and non-current items. The main issue lies in combining both requirements: which items listed above should be split because they may contain both current and non-current items?

### Definitions

IAS 1.66 and IAS 1.69 respectively define current assets and current liabilities. Non-current items are those that do not meet the criteria to be classified as current.

An asset should be classified as current when:

- It will be realized, sold or consumed in the entity's normal operating cycle or within 12 months after the reporting period,
- It is held primarily for the purpose of trading, or
- It is cash or a cash equivalent as defined in IAS 7.

According to IAS 1.68, current assets include assets such as inventories and trade receivables that are sold, consumed or realized as part of the normal operating cycle even when they are not expected to be realized within 12 months after the reporting period. It also states that current assets include the current portion of non-current financial assets.

A liability should be classified as current when:

- It will be settled in the entity's normal operating cycle or within 12 months after the reporting period, or
- It is held primarily for the purpose of trading.

Same clarifications are given as with assets: liabilities that are part of the working capital are classified as current even though they are due to be settled more than 12 months after the reporting period; current liabilities include the current portion of non-current liabilities.

### In the starter kit

The distinction between current and non-current items is made through the chart of accounts. For each kind of asset or liability that may comprise both current and non-current amounts, two accounts have been created. For example, borrowings are split into accounts L1510 (non-current portion) and L2510 (current portion).

To determine which items have to be split into current and non-current part, our analysis has been based on the list of mandatory line items above on one hand and the definition of current items on the other hand. This is our interpretation of IAS 1; some clarifications are given when needed to explain our choices. Line items that exclusively relate to insurance contracts (IFRS 17) are excluded from our analysis as the starter kit does not cover industry-specific requirements.

Mandatory line items	Current	Non-current
Assets		
Property, plant and equipment		✓
Investment property		✓
Intangible assets		✓
Financial assets (other than those presented separately)	✓	✓
Investments accounted for using the equity method		✓ <sup>(1)</sup>
Biological assets	✓	✓
Inventories	✓	
Trade and other receivables	✓	✓ <sup>(2)</sup>
Current tax receivables, as defined in IAS 12	✓	✓ <sup>(3)</sup>
Deferred tax assets, as defined in IAS 12		✓ <sup>(4)</sup>



Mandatory line items	Current	Non-current
Cash and cash equivalents	✓	
Assets classified as held for sale and assets included in disposal groups (IFRS 5)	✓	
Liabilities		
Trade and other payables	✓	✓ <sup>(5)</sup>
Provisions	✓	✓
Financial liabilities (other than those presented separately)	✓	✓
Current tax liabilities, as defined in IAS 12	✓	✓ <sup>(3)</sup>
Deferred tax liabilities, as defined in IAS 12		✓ <sup>(4)</sup>
Liabilities included in disposal groups classified as held for sale (IFRS 5)	✓	

- (1) IAS 28.15 explicitly states that investments accounted for using the equity method should be classified as non-current assets.
- (2) Non-current receivables comprise non-operating receivables (such as receivables on disposal of fixed assets) that are expected to be realized more than 12 months after the reporting period.
- (3) Non-current portion of current tax receivables or liabilities may exist. However it is quite uncommon. Therefore, the starter kit does not provide dedicated accounts; when needed, such assets or liabilities are recorded in a generic account (A1630 Other receivables, non-current or L1320 Other payables, non-current).
- (4) IAS 1.56 states that deferred tax assets and liabilities should be presented as non-current items.
- (5) Non-current payables comprise non-operating payables that are expected to be settled more than 12 months after the reporting period.

## PRESENTATION OF THE STATEMENT OF FINANCIAL POSITION

As with other statements, IAS 1 does not give a specified format for presenting the statement of financial position. However, the list of minimum disclosures, combined with the current / non-current classification gives good guidance to propose a standard presentation.

The statement of financial position delivered in the starter kit is presented in appendix 1. It is based on the analysis table above. It complies with the IAS 1 list of minimum disclosures except that it does not include dedicated line items for the non-current portion of current tax assets or liabilities. As explained above, these cases are uncommon. Moreover, such assets or liabilities – when they exist – should be significant to be presented separately in the statement of financial position which is even more uncommon.

## Statement of profit or loss and other comprehensive income

An entity should present all items of income and expense recognized in a period either:

- In a single statement of profit or loss and other comprehensive income presented in two sections, or
- In two statements: a separate statement of profit or loss and a second statement beginning with profit or loss and displaying components of other comprehensive income.

The starter kit complies with these requirements providing three statements for reporting comprehensive income:

- A single statement of profit or loss and other comprehensive income (report C11-20), see appendix 3
- A separate statement of profit or loss (report C11-10), see appendix 2, and
- A statement of other comprehensive income, beginning with profit or loss and displaying each component of other comprehensive income (report C11-15), see appendix 4.

## PROFIT OR LOSS – REQUIREMENTS

As a minimum (IAS 1.82), the profit or loss section or the statement of profit or loss should include line items that present the following amounts for the period:

- (a) Revenue, presenting separately interest revenue calculated using the effective interest method and insurance revenue<sup>1</sup>,
- (aa) Gains and losses arising from the derecognition of financial assets measured at amortized cost,
- (ab) Insurance service expenses from contracts issued within the scope of IFRS 17<sup>1</sup>
- (ac) Income or expenses from reinsurance contracts held<sup>1</sup>
- (b) Finance costs,
- (ba) Impairment losses (including reversals of impairment losses and impairment gains) determined in accordance with IFRS 9
- (bb) insurance finance income or expenses from contracts issued within the scope of IFRS 17<sup>1</sup>
- (bc) finance income or expenses from reinsurance contracts held<sup>1</sup>
- (c) Share of the profit or loss of associates and joint ventures accounted for using the equity method,
- (ca) If a financial asset is reclassified out of the amortized cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortized cost of the financial asset and its fair value at the reclassification date,
- (cb) If a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognized in other comprehensive income that is reclassified to profit or loss,
- (d) Tax expense, and
- (ea) A single amount for the total of discontinued operations (IFRS 5).

In addition, an entity should present the following items as allocation of profit or loss for the period (IAS 1.81B):

- Profit or loss attributable to non-controlling interests, and
- Profit or loss attributable to owners of the parent.

All items of income and expense are deemed to arise from an entity's ordinary activities. No item should be presented as an extraordinary item.

An analysis of expenses (by nature or by function) must be disclosed in the primary statements or in the notes. An entity classifying expenses by function should disclose additional information on the nature of expenses in the notes.

## PROFIT OR LOSS – IN THE STARTER KIT

The statement of profit or loss delivered within the starter kit meets the minimum line items required by IAS 1 except the following:

- Interest revenue is not presented separately from revenue (line item a). The starter kit is designed for non-financial corporates (banking and insurance activities are excluded from its scope). Therefore, interest revenue cannot be considered as part of operating activities and is usually not material enough to be presented on the face of the profit or loss statement.
- Line items (aa), (ba), (ca) and (cb) are not presented as they relate to quite infrequent events and usually non-material amounts. Moreover, it should be reminded that the profit or loss statement delivered in the starter kit only presents 11 line items. Adding these 4 line items would have been disproportionate.
- Line items (ac), (bb) and (bc) only regard insurance companies which are out of the scope of the starter kit. They are therefore excluded from the profit or loss statement.

As regards P&L items, expenses are analyzed by function, which is the most commonly used analysis.

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<sup>1</sup> Insurance contracts standard, only insurance companies are concerned

## OTHER COMPREHENSIVE INCOME (OCI) – DEFINITIONS

According to IAS 1.7, OCI comprises items of income and expenses that are not recognized in profit or loss as required or permitted by other IFRSs. IAS 1 lists components of OCI but does not set out a conceptual basis to define OCI items or to determine whether items should be reclassified to profit or loss.

Referring to the other IFRSs, components of OCI can be listed as follows:

Item	IFRS	Reclassified to P&L
Gains and losses on revaluation of PPE or intangible assets	IAS 16, 38	No
Remeasurements of defined benefit plans	IAS 19	No
Effective portion of gains & losses on hedging instruments in a cash flow hedge	IFRS 9	Yes/No see below
Gains and losses arising from translating the financial statements of a foreign operation	IAS 21	Yes
Gains and losses from investments in equity instruments at fair value through OCI	IFRS 9	No
Gains and losses on other financial assets measured at fair value through OCI	IFRS 9	Yes
Deferred costs of hedging	IFRS 9	Yes/No see below
Change in fair value of financial liabilities attributable to changes in own credit risk	IFRS 9	No

Regarding hedging reserve, the amount accumulated through OCI is reclassified to profit or loss in some cases whereas, in other cases, it is removed from equity and included in the initial cost of the hedged item (basis adjustment). For more information, please refer to the [IFRS 9 section](#).

## OTHER COMPREHENSIVE INCOME (OCI) – PRESENTATION OF OCI ITEMS

The OCI section should present line items for amounts of other comprehensive income in the period, classified by nature (including share of OCI of associates and joint ventures accounted for using the equity method) and grouped into those that in accordance with other IFRSs (IAS 1.82A):

- (a) Will not be reclassified subsequently to profit or loss; and
- (b) Will be reclassified subsequently to profit or loss when specific conditions are met.

In addition, the statement of profit or loss and other comprehensive income or the statement of other comprehensive income should present:

- Total other comprehensive income,
- Comprehensive income for the period, being the total of profit or loss and other comprehensive income, and
- As an allocation of total comprehensive income: comprehensive income for the period attributable to non-controlling interests and comprehensive income for the period attributable to owners of the parent.

For OCI, reclassification adjustments must be disclosed (in the statement or in the notes) as well as the income tax relating to each component (including reclassification adjustments).

Lastly, IFRS 5.38 requires that OCI relating to non-current assets and disposal groups classified as held for sale are presented separately from other OCI.

## OTHER COMPREHENSIVE INCOME (OCI) – IN THE STARTER KIT

### Identification of OCI items

Unlike P&L items, components of OCI are not booked in dedicated accounts in the general ledger; they are credited directly to equity. Therefore, they have to be identified from all the movements recognized in equity during the period. Moreover, reclassification adjustments must be identified separately from variations for the period and before-tax amounts from their corresponding tax effect.

To meet these requirements, the starter kit uses dedicated equity accounts to identify components of OCI. Each component of OCI corresponds to two dedicated equity accounts, one for the before-tax amount and one for the related tax effect:

- Gains (losses) on revaluation → 'Revaluation surplus, before tax' and 'Income tax on revaluation surplus'
- Remeasurements of defined benefit plans → 'Remeasurements of defined benefit plans, before tax' and 'Income tax on remeasurements of defined benefit plans'
- Non-recyclable gains (losses) on cash flow hedges → 'Non-recyclable hedging reserve, before tax' and 'Income tax on non-recyclable hedging reserve'
- Gains and losses on remeasuring equity investments at FVTOCI → 'Non-recyclable fair value reserve, before tax' and 'Income tax on non-recyclable fair value reserve'
- Gains and losses on financial liabilities at FVTPL attributable to changes in own credit risk → 'Financial liabilities at FVTPL credit risk reserve, before tax' and 'Income tax on financial liabilities at FVTPL credit risk reserve'
- Exchange differences on translating foreign operations → 'Foreign currency translation reserve, before tax' and 'Income tax on foreign currency translation reserve'
- Gains and losses on remeasuring financial assets at FVTOCI → 'Fair value reserve, before tax' and 'Income tax on fair value reserve'
- Gains (losses) on cash flow hedges → 'Recyclable hedging reserve, before tax' and 'Income tax on recyclable hedging reserve'

For the purpose of reporting comprehensive income, these accounts are associated to one or more flows, depending on whether they may be reclassified to profit or loss ("recycled"):

Accounts	Flows used for:	
	period variation	recycling
Revaluation surplus, before tax	F55	NA
Income tax on revaluation surplus	F55	NA
Remeasurements of defined benefit plans, before tax	F55	NA
Income tax on remeasurements of defined benefit plans	F55	NA
Non-recyclable hedging reserve, before tax	F55	NA
Income tax on non-recyclable hedging reserve	F55	NA
Non-recyclable fair value reserve, before tax	F55	NA
Income tax on non-recyclable fair value reserve	F55	NA
Own credit risk impact on financ. liab. at FVTPL	F55	NA
Income tax on own credit risk impact	F55	NA
Recyclable hedging reserve, before tax	F55	F30, F02, F98
Income tax on recyclable hedging reserve	F55	F30, F02, F98
Recyclable fair value reserve, before tax	F55	F30, F02, F98
Income tax on recyclable fair value reserve	F55	F30, F02, F98
Foreign currency translation reserve, before tax	F80	F02, F98
Income tax on foreign currency translation reserve	F80	F02, F98

## OCI of associates and joint ventures

The share of OCI of associates and joint ventures accounted for using the equity method should be presented separately, split into two line items: one for OCI that will not be reclassified to profit or loss and the other for those that may be (IAS 1.82A). In the starter kit, these line items are automatically calculated by consolidation rules.

## OCI relating to non-current assets and disposal groups classified as held for sale

IFRS 5 requires that these items are presented separately from other OCI. It does not state whether they should be split, depending on whether they may be reclassified to profit or loss or not. In the starter kit, two line items are provided in the statement of OCI. They have to be populated by manual journal entries (reclassification from other line items).

For more detail, please refer to the design guide of the starter kit available on our [SAP Help Portal](#).

## Calculation principles

Data displayed in the comprehensive income is calculated by consolidation rules, which establish the link between the account/flow/entity selection and the corresponding rows of the statement.

Dedicated reports can be used to drill down from consolidated data displayed in the statement of comprehensive income to the breakdown by original accounts / flows.

For more detail, please refer to the design guide of the starter kit available on our [SAP Help Portal](#).

## Presentation of the OCI items

Other components of comprehensive income are displayed:

- Net of related tax effects in the single statement of profit or loss and other comprehensive income, without any distinction between movements of the period and reclassification adjustments (see appendix 3)
- With all detail required in the statement of other comprehensive income (see appendix 4).

# Statement of changes in equity

## REQUIREMENTS

The statement of changes in equity should include the following information (IAS 1.106):

- Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests
- For each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with IAS 8
- For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
  - Profit or loss,
  - Other comprehensive income, and
  - Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

The amount of dividends recognized as distributions to equity holders, and the related amount per share, should be disclosed either on the face of the statement of changes in equity or in the notes.

IAS 1 does not define what the different components of equity should be. It only mentions that the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of OCI and retained earnings. In the same manner, IAS 1 does not list all categories of changes that may affect the different components of equity.

## IN THE STARTER KIT

The components of equity displayed in the statement of changes in equity are the following:

- Issued capital
- Share premium
- Treasury shares
- Other reserves
- Retained earnings
- Non-controlling interests

This statement can be easily customized for customers who would prefer displaying a more detailed analysis of the different categories of equity. The list of accounts that form part of equity is available in appendix 5.

In order to comply with IAS 1 requirements and based on the presentations commonly used by companies, reconciliation between opening and closing shows the following items:

- Changes in accounting policies (including corrections of errors, which are infrequent)
- Profit or loss
- Other comprehensive income
- Issue of shares
- Dividends paid
- Transfers
- Issue of convertible notes
- Share-based payments,
- Purchase and disposal of treasury shares,
- Transactions with non-controlling interests and
- Other movements.

As with the statement of comprehensive income, data displayed in the statement of changes in equity is calculated by consolidation rules and can be analyzed, via dedicated reports, to retrieve the underlying account / flow pairs.

## Notes

### REQUIREMENTS

According to IAS 1, notes should:

- Present information about the basis of preparation of the financial statements and the specific accounting policies,
- Disclose the information required by IFRSs that is not presented elsewhere in the financial statements,
- Provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

Notes are usually presented in the following order:

- Statement of compliance with IFRSs
- Summary of significant accounting policies applied
- Supporting information for items presented in the primary statements
- Other disclosures including contingent liabilities, unrecognized contractual commitments and non-financial disclosures

IAS 1 does not provide a comprehensive list of required disclosures. These are listed by topic in each IFRS.

### IN THE STARTER KIT

Disclosures required by IFRS are very numerous. As an illustration, checklists published by audit firms comprise usually more than a hundred pages. Besides, an entity is never affected by all requirements. For example, only entities that own investment properties have to publish disclosures listed by IAS 40.

In light of this, it would have been irrelevant to weigh down the starter kit with all required disclosures. As it is difficult to select those which are common to all entities, it has seemed preferable not to include disclosures requirements in the starter kit.

# IAS 2 | Inventories<sup>1</sup>

## Requirements

IAS 2 prescribes the accounting treatment for inventories.

The main questions relate to the determination of cost to be recognized as an asset, including the cost formulas to be used, and the recognition as an expense, including any write-down to net realizable value.

### MEASUREMENT

Inventories are measured at the lower of cost and net realizable value:

- Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition
- Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale

For 'fungible' items (meaning: for items of inventory that are interchangeable), cost formulas can be used. The first-in, first-out (FIFO) method and the weighted average cost method are permitted, whereas the use of the last-in, first-out (LIFO) method is prohibited.

### RECOGNITION AS AN EXPENSE

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

## In the starter kit

The starter kit provides six accounts of inventories, based on the most common classification: raw materials (A2110), merchandise (A2120), production supplies (A2130), work in progress (A2140), finished goods (A2150) and other inventories (A2160).

The accounting schemes related to inventories are the following:

- Current variation is booked on flow F15,
- Write-down to net realizable value is booked using flow F25,
- Reversal of any previous write-down uses flow F35.

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<sup>1</sup> Issued: December 1993. Last amendments: January 2016

# IAS 7 | Statement of Cash Flows<sup>1</sup>

## Requirements

According to IAS 7, the statement of cash flows should report cash flows during the period classified by operating, investing and financing activities.

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (IAS 7.6). Bank overdrafts are included as a component of cash and cash equivalents if they form an integral part of an entity's cash management.

The components of cash and cash equivalents must be disclosed as well as a reconciliation of the amounts in the statement of cash flows with the equivalent items in the statement of financial position.

Cash flows from operating activities are derived from the principal revenue-producing activities of the entity. They include, for example, cash receipts from the sale of goods or cash payments to employees.

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

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

The Board encourages entities to use the direct method (IAS 1.19) but without characterizing it as a preferred solution.

Cash flows from investing activities are those that arise from the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are defined as activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. Cash flows from financing activities comprise, for example, cash proceeds from issuing shares or cash repayments of amounts borrowed.

The cash flows of a foreign subsidiary should be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows. In accordance with IAS 21 it is possible to use a rate that approximates the actual rate (such as an average rate for the period). However, the use of the exchange rate at the end of the period is prohibited.

IAS 7 does not provide the minimum line items that should be included in the statement of cash flows. However, it specifies that the following amounts should be disclosed separately:

- Interests received (to be classified in a consistent manner from period to period as either operating, investing or financing activities)
- Interests paid (operating, investing or financing)
- Dividends received (operating, investing or financing)
- Dividends paid (operating or financing)
- Income taxes paid (to be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities)
- Cash flows arising from obtaining control of subsidiaries or other businesses (investing activities)
- Cash flows arising from losing control of subsidiaries or other businesses (investing activities)

Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control should be classified as cash flows from financing activities.

Non cash transactions – such as the acquisition of an asset by means of a lease or the conversion of debt to equity – should be excluded from the statement of cash flows.

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<sup>1</sup> Issued: December 1992. Last amendments: May 2017.



## In the starter kit

Even if IAS 7 encourages companies to use the direct method, operating cash flows are presented using indirect method in the starter kit for the following reasons:

- It is the most commonly used presentation by groups that currently apply IFRS;
- Only the indirect method enables automatic calculations of operating cash flows from balance sheet movements in a (relative) simple way.

The statement of cash flows delivered in the starter kit (see appendix 6) complies with the minimum line items prescribed by IAS 7.

Regarding classification of interests paid and received and dividends paid and received, the options taken in the starter kit are based on an analysis of illustrative financial statements published by audit firms (PricewaterhouseCoopers, Deloitte, Ernst & Young and KPMG):

- Interests paid in operating activities,
- Interests and dividends received in investing activities,
- Dividends paid in financing activities.

The different line items displayed in the statement of cash flows are calculated by consolidation rules using the same principles as with the statement of changes in equity and the statement of other comprehensive income.

For more detail, please refer to the design guide of the starter kit available on our [SAP Help Portal](#).

# IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors<sup>1</sup>

IAS 8 prescribes the criteria for selecting and changing accounting policies and the accounting treatment of changes in accounting policies, changes in accounting estimates and corrections of errors.

## Changes in accounting policies

### WHEN AND HOW?

A change in accounting policies occurs when it is required by a new or revised IFRS, or on a voluntary basis, if this change will result in the financial statements providing reliable and more relevant information.

A change in accounting policy resulting from the initial application of an IFRS is accounted for in accordance with the specific transitional provisions of that IFRS, if any. Transitional provisions included in IFRS may require prospective or retrospective application. In case there is no specific transitional provision, the change is accounted for in the same way as voluntary changes, which means retrospectively.

Prospective application means that the new accounting policy is applied to transactions that occur after the date the policy is changed. As no restatement of prior periods is needed, prospective application does not raise specific issues and, therefore, will not be further commented in this document.

Retrospective application is defined as “applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied” (IAS 8.5). It means that all comparative amounts are adjusted to show the results and financial position of prior periods as if the new accounting policy had always been applied. Consequently, the opening balance for the earliest period presented is restated.

For example, let us assume that a new accounting policy applies from 1 January 2019 and requires a certain asset to be measured at fair value (with impact in equity) instead of historical cost. In accordance with IAS1.39, the earliest period presented in the statement of financial position is the beginning of the previous period, which means here 1 January 2018 (or 31 December 2017).

Comparative historical cost and fair value for the asset is as follows:

	01/01/2018	31/12/2018	31/12/2019
Historical cost	100	100	100
Fair value	150	170	160

	01/01/2018 as initially published	01/01/2018 restated	31/12/2018 as initially published	31/12/2018 restated	31/12/2019
Asset	100	150	100	170	160
<b>Total assets</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>170</b>	<b>160</b>
Capital	20	20	20	20	20
Retained earnings	80	80	80	80	80
Fair value reserve		50		70	60
<b>Total E&amp;L</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>170</b>	<b>160</b>

<sup>1</sup> Issued: December 1993. Last amendments: July 2014.

## IN THE STARTER KIT

In Financial Consolidation, handling a change in accounting policies is facilitated by the use of “variant” as an ID of consolidated data. This technical dimension allows for running several versions of consolidated data based on the same local data but using different parameters (such as scope or exchange rate tables) or additional data (manual journal entries that would be specific to some versions).

As regards changes in accounting policy, this native feature of Financial Consolidation is used in the following way:

- The published version of consolidated financial statements for the comparative period (year ending 31/12/2018 in the example above) is saved as, using another variant
- The consolidation of the comparative period (historical variant) is re-run after the effects of the change in accounting policies – both at the opening and for this comparative period – have been accounted for by manual journal entries that only apply to this variant. For the restatement of the opening balance, a dedicated flow (F09) is available that is posted on the dedicated line in the statement of changes in equity.
- This new version of consolidated data for the prior period is then used to generate the opening balance of the current period in which the change in accounting policies occurs (31/12/2019 in the example).

In our previous example:

- Consolidated data for the comparative period (C-2018.12-GROUP-IFRSYTD-EUR) are saved as, using another variant (C-2018.12-GROUP-5-EUR)
- The following manual journal entry is entered to account for the effects of change in accounting policies:

Period: 2018.12

Restriction: Variant IFRSYTD

Audit-ID: PACK91<sup>1</sup>

<i>Account</i>	<i>Flow</i>	<i>Debit</i>	<i>Credit</i>
A1910 Other assets	F09	50	
E1530 Fair value reserve	F09		50
A1910 Other assets	F55	20	
E1530 Fair value reserve	F55		20

- Consolidation C-2018.12-GROUP-IFRSYTD-EUR is re-run and used to generate the opening balance of 2019.12 consolidation.

## Changes in accounting estimates

Many items in financial statements cannot be measured with precision but can only be estimated (for example: provision for bad debts). An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error (IAS 8.34).

The effect of a change in an accounting estimate is recognized in the period of change (and future periods if it also affects subsequent periods, such as a change in the estimate of the useful life of a tangible asset). It is accounted for in the same way as the initial estimate.

As changes in accounting estimates are accounted for using current accounting schemes and do not require any restatement of prior periods, they do not call for specific configuration items in the starter kit.

## Corrections of errors

Material errors, when they are discovered during subsequent periods, must be corrected retrospectively in the same way as changes in accounting methods.

In the starter kit, corrections of errors follow the same process as changes in accounting policies (see above).

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<sup>1</sup> With this audit-ID, these adjustments will be part of the 2019.12 opening data in packages.

# IAS 10| Events after the Reporting Period<sup>1</sup>

## Principles

Events after the reporting period are events that occur between the balance sheet date and the date when the financial statements are authorized for issue. IAS 10 distinguishes between “adjusting events” and “non-adjusting events”.

Adjusting events are those that provide evidence of conditions that existed at the balance sheet date. The amounts recognized in the financial statements must be adjusted to reflect those events. For example, the bankruptcy of a customer that occurs after the reporting period confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust its carrying amount.

Non-adjusting events are those that are indicative of conditions that arose after the reporting period (for example: a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorized for issue). The amounts recognized in the financial statements are not adjusted but additional disclosures are required in the notes if these events are material.

IAS 10 explicitly states that dividends declared after the reporting period should not be recognized as a liability.

## In the starter kit

As the accounting for adjusting post balance sheet events does not require specific accounting schemes, it does not call for additional configuration items in the starter kit.

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<sup>1</sup> Issued: May 1999. Last amendments: July 2014

# IAS 12| Income Taxes<sup>1</sup>

IAS 12 sets out the accounting treatment for income taxes. For the purpose of IAS 12, income taxes include all taxes based on taxable profits and other taxes, such as withholding taxes, which are payable by an entity on distributions to its shareholders.

## Accounting for current tax

### PRINCIPLES

Current tax for the period is based on the taxable and deductible amounts that will be shown on the tax return for the current year.

IAS 12 requires current tax to be recognized as income or as an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event that is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax for current and prior periods should, to the extent unpaid, be recognized as a liability. If the amount already paid exceeds the amount due, the excess is recognized as an asset.

Current tax assets and liabilities should be offset in the statement of financial position if, and only if, the entity:

- has a legally enforceable right to set off the recognized amounts, and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

IAS 1 requires that current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities be disclosed separately on the face of the statement of financial position.

### IN THE STARTER KIT

The starter kit provides the following accounts to book current tax effects:

- A2310 "Income tax receivables" and L2410 "Current income tax liabilities"
- P5010 "Income tax" when the impact is recognized in P&L
- Dedicated accounts in equity (for example: E1531 "Income tax on fair value reserve") when the impact is recognized in other comprehensive income

When the effect has to be recognized in equity but is not part of comprehensive income, the equity account to be used is the same as with the underlying transaction.

In the balance sheet, current tax assets and current tax liabilities are displayed on dedicated rows.

## Accounting for deferred tax

### DEFINITIONS

According to IAS 12, deferred tax accounting is based on the balance sheet liability method, which defines temporary differences as the differences between the carrying amount of an asset or a liability and its tax base.

The tax base of an asset or a liability is the amount attributed to that asset or liability for tax purposes. More precisely, an asset's tax base equals the future deductible amounts when the asset's carrying amount is recovered, whereas a

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<sup>1</sup> Issued: October 1996. Last amendments: December 2017.

liability's tax base equals its carrying amount less future deductible amounts. If there are no tax consequences of recovery, tax base equals carrying amount.

#### Examples (IAS 12.7)

A machine costs 100. For tax purposes, depreciation of 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal -> the tax base of the machine is 70 (100 – 30).

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

A loan payable has a carrying amount of 1,000. The repayment of the loan will have no tax consequences -> its tax base is 1,000 (carrying amount 1,000 less future deductible amounts 0 = 1,000)

As noticed in IAS 12.9, some items have a tax base but are not recognized as assets or liabilities in the balance sheet. For example, research costs are immediately recognized as an expense but may not be deductible for tax purposes until a later period. The difference between the tax base of the research costs (amount that will be deductible in future periods) and the carrying amount of nil is a deductible temporary difference.

## RECOGNITION OF DEFERRED TAX ASSETS AND LIABILITIES

### Overall principles

A deferred tax asset (liability) should be recognized for all deductible (taxable) temporary differences, except when the temporary difference arises from:

- the initial recognition of goodwill (see more detail below);
- the initial recognition of an asset or a liability in a transaction which is not a business combination, and which affects neither accounting profit nor taxable profit; this exception does not apply to compound financial instruments (see more detail below);

#### Example

An entity acquired an asset for 1,000 that has a useful life of five years. Depreciation is not deductible for tax purposes. On disposal, any capital gain would not be taxable and any capital loss would not be deductible.

The tax base of the asset is nil as its cost is not deductible for tax purposes either in use or in disposal. Therefore, a temporary difference of 1,000 arises but, by exemption, the corresponding deferred tax liability should not be recognized.

- investments in subsidiaries, joint-ventures or associates (subject to dedicated rules, see below).

As regards deferred tax assets, they are recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The carrying amount of deferred tax assets shall be reviewed in this direction at the end of each reporting period.

### Goodwill

Upon recognition, goodwill generally gives rise to a taxable temporary difference as its tax base is nil in most jurisdictions. However IAS 12.21 prohibits the recognition of the resulting deferred tax liability because "goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill". As a consequence, subsequent reductions of the taxable temporary difference, due to impairment losses for example, are not recognized either.

On the other hand, deferred tax may be recognized on goodwill when it is deductible for tax purposes. Some (few) jurisdictions allow cost of goodwill to be deducted from taxable profit, generally over a certain period. The example given in IAS 12.21B illustrates this principle: "if in a business acquisition an entity recognizes goodwill of CU100 that is deductible for tax purposes at a rate of 20% per year starting in the year of acquisition, the tax base of the goodwill is CU100 on initial recognition and CU80 at the end of the year of acquisition. If the carrying amount of goodwill at the end of the year of acquisition remains unchanged at CU100, a taxable temporary difference of CU20 arises at the end of that year. Because that taxable temporary difference does not relate to the initial recognition of the goodwill, the resulting deferred tax liability is recognized".

## Compound financial instruments

IAS 32 requires an entity that issues a compound financial instrument (for example, a convertible bond) to recognize separately the liability component and the equity component (see IAS 32 for more details). A taxable temporary difference generally arises from the initial recognition of the equity component because, in many jurisdictions, the tax base is equal to the total amount of the financial instrument (sum of the two components).

IAS 12.23 states that the exception listed above does not apply in this case. The resulting deferred tax liability should be recognized (with the corresponding impact in equity). Subsequent changes are recognized in profit or loss as deferred tax expense (income).

## Investments in subsidiaries, joint-ventures and associates

Temporary differences arise when the carrying amount of investments in subsidiaries, joint-ventures and associates (namely the parent's share of the net assets of the held entity including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of this investment. Such differences come from, for example, the existence of undistributed profits of the held company or changes in foreign exchange rates when the investee is a foreign company.

A deferred tax liability should be recognized for all taxable temporary differences except when both of the following conditions are satisfied:

- the investor is able to control the timing of the reversal of the temporary difference and
- it is probable that the temporary difference will not reverse in the foreseeable future

As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment. Therefore, unless profits are to be distributed in the foreseeable future or the subsidiary is to be disposed of, parents would usually not recognize a deferred tax liability for their investment in subsidiaries.

On the contrary, deferred tax is usually to be recognized for investments in an associate unless there is an agreement requiring that the profits of the associate will not be distributed in the foreseeable future.

### Example

Entity A acquires 20% of entity B on 1 January 20X1 for CU 200,000. At the acquisition date, the fair value of B's identifiable assets and liabilities is CU 800,000.

#### *Calculation of goodwill at acquisition:*

Consideration paid	200,000	
Share of B's net assets	(160,000)	$20\% \times 800,000$
Goodwill		40,000

Entity B makes a profit of CU 100,000 during year 20X1. No other change occurs in B's equity.

Carrying amount of investment in B at 31 December 20X1:		
Share in B's net assets	180,000	$20\% \times (800,000 + 100,000)$
Goodwill		<u>40,000</u>
Total	220,000	
Tax base (cost of investment in A's ledger)	200,000	
Taxable temporary difference		20,000

Tax rate in entity A's jurisdiction is 25%. It applies equally to all gains and losses including dividends received and gain on sale of investments.

A deferred tax liability should be recognized:  $20,000 \times 25\% = 5,000$ . This deferred tax liability is recognized through profit or loss.

As regards joint-ventures, the recognition of deferred tax depends on whether the contractual arrangement between venturers provides for the retention of any profit in the joint-venture.

When the tax base of an investment is higher than its carrying amount<sup>1</sup>, giving rise to a deductible temporary difference, a deferred tax asset should be recognized only to the extent that it is probable that:

- The temporary difference will reverse in the foreseeable future; and
- Taxable profit will be available against which the temporary difference can be used.

### Unused tax losses and unused tax credits

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

## ACCOUNTING SCHEMES

Following the principle that tax should follow the item,

- Deferred tax that relates to items that are recognized (in the same or a different period) in other comprehensive income is recognized in other comprehensive income
- Deferred tax that relates to items that are recognized directly in equity is recognized directly in equity
- Deferred tax assets and liabilities recognized as identifiable assets and liabilities in a business combination affect the amount of goodwill or bargain purchase
- Other deferred tax should be recognized as income or expense and included in profit or loss for the period.

The carrying amount of deferred tax assets and liabilities can change even though there is no change in the amount of the related temporary differences (for example: in case of a change in tax rates). The resulting deferred tax is recognized in profit or loss, except to the extent that it relates to items previously recognized in other comprehensive income or in equity.

## MEASUREMENT AND PRESENTATION

Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. When the tax consequences depend on the manner in which the asset or the liability is recovered or settled, the measurement of the deferred tax asset or liability should reflect the expected manner of recovery or settlement.

### Example (IAS 12.51A, example A)

An item of PPE has a carrying amount of 100 and a tax base of 60. A tax rate of 20% would apply if the item was sold and a tax rate of 30% would apply to other income.

The entity recognizes a deferred tax liability of 8 (40 at 20%) if it expects to sell the item without further use and a deferred tax liability of 12 (40 at 30%) if it expects to retain the item and recover its carrying amount through use.

IAS 12 prohibits discounting of deferred tax assets and liabilities.

IAS 1 requires that current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities be disclosed separately on the face of the statement of financial position. Deferred tax assets and liabilities have to be classified as non-current.

Deferred tax assets and liabilities should be offset for presentation purposes if, and only if:

- The entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity, or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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<sup>1</sup> This is the case, for example, when the related subsidiary has made losses and the impairment recognized as a consequence in the parent's local statements has not been deductible from taxable profit.



## IN THE STARTER KIT

Deferred taxes relating to temporary differences existing in the local statements and to carry forward of unused tax losses and unused tax credits are entered at package level.

Consolidation entries, whether manual or automatic, may affect the carrying values of assets and liabilities but have usually no impact on their tax bases (because tax calculation is usually based on “individual” statements). Therefore, new temporary differences may arise leading to the recognition of new deferred tax assets or liabilities.

The following consolidation entries may require deferred tax to be accounted for:

- Miscellaneous adjustments (such as those booked to comply with group accounting policies)
- Elimination of internal results (such as gain or loss on sale of fixed assets)
- Fair value adjustments at acquisition date
- Consolidation of investments (according to specific rules for investments in subsidiaries, JV and associates)

In the starter kit, these deferred taxes are booked by manual journal entries using the same audit-ID as the one used for the original entry, and the following accounts:

- A1710 “Deferred tax assets” and L1410 “Deferred income tax liabilities”
- P5020 “Deferred tax” when the impact is recognized in P&L
- Dedicated accounts in equity (for example: E1531 “Income tax on fair value reserve”) when the impact is recognized in other comprehensive income
- Same equity account as the one used for the underlying transaction when it impacts equity other than other comprehensive income

Example (Tax rate: 30%)

At the acquisition date (end of year 20X1), an asset of company A has been revalued from CU 1,000 to CU 1,200. A deferred tax liability has been recognized for CU 60 (being  $(1,200 - 1,000) \times 30\%$ ):

Audit ID: FVA11

<i>Account</i>	<i>Flow</i>	<i>Debit</i>	<i>Credit</i>
E1610 Retained earnings	F01	60	
L1410 Deferred tax liabilities	F01		60

The remaining useful life of this asset was 10 years. In 20X2, depreciation booked in local statements is 100 (=  $1,000 / 10$ ). In the consolidated statements, an additional depreciation is booked (via manual journal entry using audit-ID FVA11) for CU 20 (=  $[1,200 - 1,000] / 10$ ). A deferred tax income has to be booked for CU 6:

Audit ID: FVA11

<i>Account</i>	<i>Flow</i>	<i>Debit</i>	<i>Credit</i>
L1410 Deferred tax liabilities	F15	6	
P5020 Deferred tax (P&L)	Y99		6

To offset deferred tax assets and liabilities of an entity, if applicable, a manual journal entry has to be posted using the audit-ID CONS01. Because this audit-ID is dedicated to “top” adjustments, this entry has to be posted in group currency and after impact of consolidation rate if any.

Example (Group currency is EURO)

For the entity A, deferred tax assets and liabilities are as follows at the closing date (in EURO)

Deferred tax assets	150
Deferred tax liabilities	(200)
Balance	(50)

To offset deferred tax assets and liabilities, the manual journal entry is the following:

Audit ID: CONS01

<i>Account</i>	<i>Flow</i>	<i>Debit</i>	<i>Credit</i>
A1710 Deferred tax asset	F50		150
L1410 Deferred tax liabilities	F50	150	

# IAS 16 | Property, Plant and Equipment<sup>1</sup>

## Principles

IAS 16 prescribes the accounting treatment for property, plant and equipment (PPE) with the exception of impairment which is dealt with in IAS 36.

### INITIAL RECOGNITION

The cost of an item of PPE is recognized as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably (IAS 16.7)

An item of PPE that qualifies for recognition as an asset is initially measured at cost, including its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be used and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located (in accordance with IAS 37).

### SUBSEQUENT MEASUREMENT

IAS 16 permits an entity to adopt either the cost model or the revaluation model as its accounting policy. This choice is made for an entire class of PPE and not asset by asset. Examples of classes of assets given by IAS 16 are land, land and buildings, machinery, ships, aircraft, motor vehicles, furniture and fittings, office equipment and bearer plants.

#### Cost model

Under the cost model, an item of PPE is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

#### Revaluation model

Under the revaluation model, an item of PPE whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of PPE is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount (this method is often used when an asset is revalued by applying an index to determine its depreciated replacement cost)
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset (this method is often used for buildings).

The adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs below.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase should be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

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<sup>1</sup> Issued: December 1993. Last amendments: May 2017.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognized in profit or loss. However, the decrease should be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The revaluation surplus included in equity in respect of an item of PPE may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

## DEPRECIATION

Depreciation applies to all items of PPE, whether held at historical cost or revalued amount. However, depreciation does not apply to investment properties carried at fair value in accordance with IAS 40. Neither does it apply to assets (such as land) that have an unlimited useful life. Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately.

The depreciable amount of an asset should be allocated on a systematic basis over its useful life. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The depreciation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Variety of depreciation methods can be used. Examples given by IAS 16 are the straight-line method, the diminishing balance method and the units of production method.

The depreciation charge for each period should be recognized in profit or loss unless it is included in the carrying amount of another asset (for example: in inventory as part of an allocation of overheads).

## DERECOGNITION OF PROPERTY, PLANT AND EQUIPMENT

The carrying amount of an item of PPE should be derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of PPE is the difference between the net disposal proceeds, if any, and the carrying amount of the item. It should be included in profit or loss when the item is derecognized. Gains should not be classified as revenue.

# In the starter kit

## CATEGORIES OF PROPERTY, PLANT AND EQUIPMENT

As regards items of PPE covered by IAS 16, the following accounts are available in the starter kit:

Classes of PPE	Gross amount	Accumulated depreciation	Accumulated impairment
Lands and buildings	A1110	A1111	A1112
Tangible exploration and evaluation assets	A1120	A1121	A1122
Fixtures and fittings	A1130	A1131	A1132
Construction in progress	A1140	N/A	A1142
Office equipment	A1150	A1151	A1152
Vehicles	A1160	A1161	A1162
Machinery	A1170	A1171	A1172
Other property, plant and equipment	A1180	A1181	A1182

## **ACCOUNTING SCHEMES**

### **Initial recognition**

On acquisition of a new item of PPE, the flow F20 (acquisition) is used. If this item was previously recognized as a construction in progress, the reclassification is made using flow F50 (non-cash).

### **Subsequent measurement**

The starter kit supports both methods: cost model and revaluation model.

#### **Depreciation and impairment**

Depreciation charges are credited to the corresponding account of PPE (for example: A1111 for depreciation of buildings) using flow F25. The P/L account to be used depends on the way depreciation charges are allocated (cost of sales, administrative expenses, and so on).

The accounting scheme is the same for an impairment loss except that the account to be credited is a dedicated one (for example: A1112 for impairment of buildings). For reversals of impairment losses, the flow to be used is F35.

#### **Revaluation**

The revaluation model uses the flow F55 for both the concerned asset and the impact in equity (on the dedicated account E1410 Revaluation surplus).

### **Derecognition**

When an item of PPE is sold, the carrying amount is derecognized using flow F30. In the profit or loss, the gain or loss is recognized in the account P1610 'Gain or loss on sale on property, plant and equipment'.

When an item of PEE is written off, the flow to be used is flow F50 (there is no impact on P&L because the asset should have been fully depreciated or impaired before being derecognized).

# IAS 19| Employee Benefits<sup>1</sup>

## Foreword

IAS 19 is a very complex standard. The main issues lie in the identification, the measurement and the recognition of the post-employment benefits (such as pension liabilities). Insofar as these difficulties relate to upstream transactional systems and not directly to consolidation software, we limit our analysis to a brief overview of the different categories of employee benefits and, for each of them, the corresponding accounting schemes in the starter kit.

IAS 19 identifies four categories of employee benefits:

- Short-term employee benefits are “employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service”. Examples: wages, salaries and social security contributions, paid annual leave...
- Post-employment benefits are “employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. Examples: pensions, post-employment medical care ...
- Termination benefits are “employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of an employment”.
- Other long-term employee benefits are “all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits”. Examples: long-term paid absences, long-term disability benefits...

## Short-term employee benefits

### ACCOUNTING PRINCIPLES

The amount of short-term benefits is recognized as a liability, after deducting any amount already paid, and as an expense unless another standard requires or permits the inclusion of the benefits in the cost of an asset (for example, IAS 2 Inventories) during the accounting period in which the employee has rendered service.

### IN THE STARTER KIT

As operating expenses are classified by function in the starter kit, short-term employee benefits have to be allocated to the different functions: cost of sales (account P1120), distribution costs (P1310), administrative expenses (P1410) and other expenses (P1510). Corresponding liabilities, if any, are stored on the account L2340 ‘Other payables, current’.

## Post-employment benefits

### ACCOUNTING PRINCIPLES

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

Under **defined contribution** plans, an entity pays fixed contributions into a separate entity (a fund) and has no further obligation. Expenses are recognized in the period in which the contribution is payable (same accounting scheme as with short-term benefits).

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<sup>1</sup> Issued: February 1998. Last amendments: May 2017.

Under **defined benefit** plans, the entity's obligation is to provide the agreed benefits to current and former employees. Actuarial risk and investment risk fall in substance on the entity. Therefore, the measurement of the entity's obligation is complex and requires the usage of actuarial techniques.

Defined benefit plans may be unfunded or they may be wholly or partly funded by contributions to a legally separate entity (a fund) from which employees are paid.

Accounting for defined benefit plans involves the following steps:

- Determining the deficit or surplus
- Determining the amount of the net defined benefit liability or asset that will be recognized in the statement of financial position
- Determining amounts to be recognized in profit or loss
- Determining the remeasurement of the net defined liability or asset to be recognized in other comprehensive income

### **1<sup>st</sup> step: determination of the deficit or surplus of the plan**

Using an actuarial technique, the projected unit credit method, the entity should first evaluate the present value of the defined benefit obligation (cost of the benefit that employees have earned in return for their service in the current and prior periods). This requires making estimates (actuarial assumptions) about demographic variables (e.g. employee turnover, mortality) and financial variables (e.g. discount rate, future increases in salaries).

The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

### **2<sup>nd</sup> step: statement of financial position**

If the previous calculation gives rise to a deficit, this latter is recognized as a defined benefit liability in the statement of financial position.

In case of a surplus, the amount recognized as a net defined benefit asset is limited ("asset ceiling") to the aggregate of the present values of any refunds expected from the plan and any expected reduction in future contributions.

### **3<sup>rd</sup> step: profit or loss**

The amounts recognized in profit or loss are the following:

- Current service cost
- Past service cost and gain or loss on settlement (if any)
- Net interest on the defined benefit liability (asset)

The current service cost is defined as "the increase in the present value of the defined obligation resulting from employee service in the current period". It is measured at the same time as the present value of defined benefit obligation.

Past service cost results from a plan amendment or curtailment. A plan amendment occurs when an entity introduces, or withdraws a defined benefit plan or changes the benefits payable under an existing plan. A curtailment occurs when an entity significantly reduces the number of employees covered by a plan.

Past service cost is recognized as an expense at the earlier of the following dates: when the plan amendment or curtailment occurs and when the entity recognizes related restructuring costs or termination benefits.

The gain or loss on a settlement is the difference between:

- The present value of the defined benefit obligation being settled as determined on the date of settlement; and
- The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

Gain or loss on a settlement is recognized in profit or loss when the settlement occurs.

Net interest on the net defined benefit liability (asset) represents the change in the defined benefit obligation and the plan assets as a result of the passage of time. It is determined by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period, taking into account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

#### 4<sup>th</sup> step: other comprehensive income

Remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income. They are not reclassified to profit or loss in a subsequent period. However they can be transferred within equity.

Remeasurements of the net defined benefit liability (asset) comprise:

- Actuarial gains and losses on the defined benefit obligation
- The difference between actual return on plan assets and the return implied by the net interest cost (as included in profit or loss)
- Any change in the effect of the asset ceiling, excluding amounts included in the net interest on the net defined benefit liability (asset)

Actuarial gains and losses arise from the usage of actuarial assumptions to measure the present value of the defined benefit obligation. Causes of actuarial gains and losses include, for example, the effect of changes in estimates of future employee turnover or the effect of changes in the discount rate (used to calculate the present value of the obligation).

#### IN THE STARTER KIT

Net defined benefit liabilities are accounted for using the following accounts: L1110 (Provisions for employee benefits, non-current) for the non-current portion and L2110 (Provisions for employee benefits, current) for the current one.

Changes in the amount of a benefit liability may comprise the following items (flows to be used are mentioned accordingly):

- Current service cost, recognized in profit or loss (flow F25)
- Past service cost and gain or loss on settlement, if any, recognized in profit or loss (flow F25)
- Net interest expense (income) recognized in profit or loss (flow F25)
- Benefits paid in case of an unfunded plan (flow F50, see below)
- Contributions to plan assets by employer (flow F50, see below)
- Actuarial gains and losses on the obligation, recognized in other comprehensive income (flow F55, see below)
- Difference between actual return on plan assets and the return implied by the net interest cost, recognized in other comprehensive income (flow F55, see below)

As regards changes that relate to cash payments, whether directly to employees or through contributions to plan assets, they are accounted for in two steps in the starter kit. Firstly, the payment to be made is booked as a payable against a decrease in the benefit liability, both sides using flow F50 (balanced flow used for reclassification). When the payment occurs, the payable account is settled with counterpart on cash account (both using flow F15).

As regards remeasurements recognized in other comprehensive income, the counterpart of the changes in the benefit liability is recognized through the dedicated equity account E1420 (Remeasurements of defined benefit plans). These amounts can then be transferred to another account within equity if needed.

No specific account is provided by the starter kit for the case where the plan is overfunded (plan assets exceed the obligation) because it only rarely happens. When needed, the starter kit can be customized to include such assets.

## Termination benefits

#### ACCOUNTING PRINCIPLES

Termination benefits are dealt with separately in IAS 19 because “the event that gives rise to an obligation is the termination of employment rather than employee service” (IAS19.159).

Termination benefits are recognized (as a liability and an expense) at the earlier of the following dates:

- When the entity can no longer withdraw the offer of those benefits; and
- When the entity recognizes costs for a restructuring.

#### **IN THE STARTER KIT**

Termination benefits are accounted for using the appropriate P&L account (according to the entity's accounting policy) and the accounts L1220 Restructuring provision, non-current or L2220 Restructuring provision, current according to the due date.

## **Other long-term benefits**

#### **ACCOUNTING PRINCIPLES**

Other long-term employee benefits are recognized and measured in the same way as post-employment benefits under a defined benefit plan except that remeasurements are not recognized in other comprehensive income but in profit or loss.

#### **IN THE STARTER KIT**

Other long term benefit liabilities may be recognized in any generic liability account (such as L1260 Miscellaneous provisions, Non-current) or in a dedicated account to be created if such benefits are material.

The accounting schemes are those described above for post-employment benefits except that remeasurements are recognized in profit or loss (meaning that the corresponding change in liability is booked using flow F25).



# IAS 20| Accounting for Government Grants and Disclosure of Government Assistance<sup>1</sup>

## Foreword

IAS 20 deals with the accounting for government grants and the disclosure of both government grants and other forms of government assistance. This document only focuses on accounting aspects.

## Accounting principles

A government grant is not recognized until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.

Government grants are recognized in profit or loss over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. For example, grants related to depreciable assets are usually recognized in profit or loss over the periods and in the proportions in which depreciation expense to those assets is recognized.

A government grant that becomes receivable as a compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs should be recognized in profit or loss of the period in which it becomes receivable.

Government grants related to assets are presented in the statement of financial position either as deferred income or by deducting the grant from the carrying amount of the asset. Whatever the presentation in the statement of financial position, the corresponding cash flows (receipt of the government grant and payment for the asset) are often disclosed separately.

Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense. Both methods are acceptable.

A government grant that becomes repayable is accounted for as a change in accounting estimate (see IAS8):

- Grant related to income: repayment applied first against any unamortized deferred credit relating to this grant if any, then in profit or loss
- Grant related to an asset: increase of the carrying amount of the asset or reduction of the deferred income balance; cumulative additional depreciation that would have been recognized to date in the absence of the grant should be recognized immediately in profit or loss

## In the starter kit

The starter kit does not provide dedicated indicators for government grants. Customers are invited to use generic accounts (for example: P1210 'other income' to account for the P&L effect of an income-related grant). If government grants are material, the starter kit can be customized to present separately the effect of government grants, especially in the statement of cash-flows.

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<sup>1</sup> Issued: April 1983. Last amendments: July 2014

# IAS 21| The Effects of Changes in Foreign Exchange Rates<sup>1</sup>

IAS 21 sets out requirements for (i) accounting for transactions and balances in foreign currencies, (ii) translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method and (iii) translating an entity's results and financial position into a presentation currency.

## Transactions in foreign currencies

### REQUIREMENTS

A foreign currency transaction is recorded on initial recognition in the functional currency by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- Foreign currency monetary items (such as receivables) are translated using the closing rate;
- Non-monetary items measured at historical cost (e.g. fixed assets) continue to be measured using transaction-date exchange rates
- Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

Exchange differences arising on the settlement of monetary items or on translating monetary items at a rate different than when initially recognized are included in profit or loss except when the monetary item forms part of the entity's net investment in a foreign operation.

An entity may have a monetary item that is receivable from or payable to a foreign operation. If the settlement of this item is neither planned nor likely to occur in the foreseeable future, this item forms part of the entity's net investment in that foreign operation. However trade receivables or trade payables (in contrast with long-term receivables or loans) cannot be regarded as such.

Exchange differences arising on items that form part of the entity's net investment in a foreign operation are recognized in profit or loss in the entity's separate financial statements. In the consolidated statements they are recognized in other comprehensive income and reclassified to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income (e.g. revaluation of PPE), any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

For exchange differences recognized in profit or loss, IAS 21 is silent as to where in the income statement they should be included. They can be split depending on the transaction from which they arise. For example, foreign exchange differences arising from trading activities may be included in the results of operating activities whereas those arising from financing activities may be included as components of finance cost or income.

### IN THE STARTER KIT

Exchange gains or losses recognized in profit or loss can be included in operating expenses or income (accounts P1210 to P1510) as well as in financing (P2120 to P2230).

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<sup>1</sup> Issued: December 1983. Last amendments: January 2016.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income in the same equity account (e.g. E1410 'Revaluation surplus').

In the consolidated statements, exchange differences arising on items that form part of the entity's net investment in a foreign operation are recognized in other comprehensive income, in the dedicated account E1510 'foreign currency translation reserve'.

## Translation of foreign entities' financial statements

### FROM LOCAL CURRENCY TO FUNCTIONAL CURRENCY

#### Principles

IAS 21 requires each individual entity to determine its functional currency. This is the currency of the primary economic environment in which it operates and may be different from the currency of the country in which the entity is located (referred to as local currency). For example, oil companies' functional currency is often US dollar, as crude oil is routinely traded in US dollars around the world.

When accounting books are not maintained in the entity's functional currency (because functional currency is different from local currency), financial statements must be first translated into the functional currency using the following principles (IAS21.34):

- Revenues, expenses, gains and losses are translated using the exchange spot rate at the dates they are recognized (average rates may be used for practical reasons)
- Monetary assets and liabilities are translated using the closing rate
- Non-monetary assets and liabilities are translated using the exchange rates at the date of the transaction (historical rate) when they are measured at cost and the exchange rates at the date when the fair value was determined when they are measured at fair value
- Any exchange difference is recognized in profit or loss, except when the underlying operation is recognized in other comprehensive income

#### In the starter kit

In the starter kit, translation from local currency to functional currency (when necessary) must be carried out before data are entered in the package. Indeed, the property "currency" of an entity, as declared in the table of entities, corresponds to its functional currency (and not to its local currency). Data entered in the packages are those in functional currency.

### FROM FUNCTIONAL CURRENCY TO GROUP CURRENCY

#### Principles

IAS 21 sets out the following principles as regards translation from functional currency to group currency:

- Assets and liabilities are translated at the closing rate
- Income and expenses are translated using the exchange rates at the dates of the transaction. For practical reasons, a rate that approximates the exchange rates at the dates of the transaction (for example an average rate for the period) is often used
- All resulting exchange differences are recognized in other comprehensive income

These exchange differences result from:

- Translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate
- Translating the opening net assets at a closing rate that differs from the previous closing rate.

The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation (see also IFRS 10). When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to

non-controlling interests are allocated to, and recognized as part of, non-controlling interests in the consolidated statement of financial position.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation should be treated as assets and liabilities of the foreign operation. Thus they should be expressed in the functional currency of the foreign operation and should be translated at the closing rate.

### **In the starter kit**

In the starter kit, the conversion process, that is part of the consolidation process, follows the principles set out by IAS 21.

As regards the use of an average rate, two methods are available:

- Year-to-date conversion: amounts are converted on a YTD basis, applying the average rate between Jan 1st and the closing date
- Periodic conversion: amounts are converted on a monthly or quarterly basis, applying the exact average rate for each period (month/quarter)

This choice is made when the consolidation parameters (set of rules) are defined.

For more detail, please refer to the operating guide.

## **Use of another presentation currency**

Translating an entity's financial statements into a presentation currency (that differs from its functional currency) follows the same principles as translating foreign entities' financial statements (see above).

# IAS 23 | Borrowing Costs<sup>1</sup>

## Accounting Principles

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Other borrowing costs are recognized as an expense.

## In the starter kit

Borrowing costs can be included in the cost of an asset by using flow F20 (increase). In the statement of cash flows, capitalized borrowing costs are then part of the investment.

For borrowing costs recognized as an expense, the account P2220 'Interest expense' is used.

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<sup>1</sup> Issued: December 1993. Last amendments: December 2017.

# IAS 27 | Separate Financial Statements<sup>1</sup>

## Requirements

IAS 27 prescribes the accounting requirements for investments in subsidiaries, joint-ventures and associates in the holding's separate financial statements (as opposed to the consolidated statements).

Investments in subsidiaries, joint-ventures and associates are accounted for either:

- at cost,
- at fair value, according to IFRS 9, through profit or loss or, under irrevocable option, through other comprehensive income (see IFRS 9 for more detail),
- using the equity method as described in IAS 28.

The choice between these three methods is made by category of investments.

Dividends from a subsidiary, a joint-venture or an associate are recognized in profit or loss unless the entity elects to use the equity method, in which case the dividend is recognized as a reduction from the carrying amount of the investment (IAS 27.12).

Investments measured at cost or using equity method fall into IFRS 5 scope when they are classified as held for sale or included in a disposal group that is classified as held for sale. On the contrary, the accounting for investments measured according to IFRS 9 is not changed in such circumstances.

Impairment principles are described in IAS 36.

## In the starter kit

### INVESTMENTS MEASURED AT COST OR AT FAIR VALUE

Investments in subsidiaries, joint-ventures and associates are accounted for using the account A1810 for the gross amount and the account A1812 for the accumulated impairment (if any). These amounts are analyzed by "share" (dimensional analysis) to automate, as far as possible, the consolidation process (see IFRS 10 for more detail).

For investments measured at fair value, a dedicated flow (F55) is used to enter the change in value during the period. The counterpart is either in profit or loss or in the dedicated equity account 'E1440 – Non-recyclable fair value reserves' for investments for which the option for other comprehensive income has been elected.

### INVESTMENTS MEASURED AT EQUITY

When measured using the equity method, the carrying amount of the investment should reflect every change in the held entity's equity:

Movements	Counterpart
Dividends paid	Cash
Net profit for the period	Profit or loss account
Other comprehensive income	Other comprehensive income
Capital issuance	Cash (subscription)
Other movements resulting from changes in scope when the entity itself holds investments in subsidiaries, joint-ventures or associates	Not defined in IAS 27

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<sup>1</sup>Issued: April 1989. Last amendments: August 2014.

In the starter kit, dedicated accounts are available to enter data relating to investments measured using the equity method in packages:

- A1815 "Investments measured at equity" to be used instead of the account A1810
- E15EM "Share of OCI and other movements of equity-accounted investments" to account for changes in the held entity's equity (other than profit for the period, dividends paid or capital issuance)
- P30EM "Share of profit of equity-accounted investments" to account for the share in the net profit for the period.

The impact of equity accounting (meaning the difference from the original cost of investment) is eliminated during the consolidation process so that the usual consolidation rules then apply to these investments. This elimination is processed at the beginning of the consolidation in the currency of the entity and using dedicated audit-IDs.

Manual journal entries are necessary:

- to recover the historical cost during the first consolidation with the starter kit or at the date the option for equity method is elected
- to adjust local amounts when particular transactions occur (e.g. partial disposal of an investment)

A dedicated set of data is available in the starter kit (A - GROUP – 20013.12 & 2014.12 – IFRS-YTD - EUR) that illustrates the use of equity method in local statements.

# IAS 28| Investments in Associates and Joint Ventures<sup>1</sup>

## Scope

Firstly, IAS 28 prescribes the accounting for investments in associates. An associate is an entity over which the investor has significant influence. According to IAS 28.3, "significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies". Significant influence is presumed where an entity holds 20% or more, directly or indirectly, of the voting power. However significant influence can be demonstrated despite a lower ownership using other criteria such as a representation on the board of directors. Conversely, such criteria can be used to demonstrate that an entity holding more than 20% of the voting power does not have significant influence.

Besides, IAS 28 also sets out the requirements to apply the equity method to entities that qualify as joint-ventures according to IFRS 11.

## Applying equity method

### PRINCIPLES

In the consolidated statements, an investment in an associate or a joint-venture must be accounted for using the equity method from the date on which it becomes an associate or a joint venture.

On acquisition, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is recognized as goodwill and included in the carrying amount of the investment or in profit or loss if negative amount (like a bargain purchase for subsidiaries). Amortization of goodwill is not permitted.

### In the statement of financial position

The carrying amount of an investment accounted for using the equity method equals the initial cost of investment, increased or decreased to recognize any subsequent change in the investee's equity to the extent of the investor's interests (profit or loss, dividends paid, other comprehensive income...). In other words, the equity method consists in replacing the carrying amount of the shares held in the investee with the corresponding portion of equity, increased by the amount of goodwill recognized on acquisition if any.

It should be classified as a non-current asset in the statement of financial position.

#### Example

Entity P acquires 20% of entity A on 1 January 2019 for EUR 1,000.

Entity's A balance sheet is as follows:

	<u>01/01/2019</u>	<u>31/12/2019</u>		<u>01/01/2019</u>	<u>31/12/2019</u>
Assets	2 000	2 300	Capital	500	500
			Retained earnings	1 500	1 800
			- from which: 2019 net income		300

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<sup>1</sup> Issued: April 1989. Last amendments: May 2017



#### Example

On acquisition, goodwill is calculated as follows:

Cost of investment		1 000
Fair value of A's net asset	2 000	
% held by P	20%	400
<b>Goodwill</b>		<b>600</b>

The carrying amount of the investment in A in P's consolidated financial statements as at 31 December 2019 can be determined as follows:

#### 1st method

Initial cost of investment in A	1 000
P's share of A's profit or loss for 2019	60
<b>Total</b>	<b>1 060</b>

#### 2nd method

A's total equity as at 31/12/2019	2 300
% held by P	20%
	460
Goodwill	600
<b>Total</b>	<b>1 060</b>

When an associate or joint venture makes losses, the parent company's share of these is recognized until its interest is reduced to zero. Afterwards, additional losses are provided for, and a liability is recognized, but only to the extent that the parent company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

#### **In the statement of profit and loss and other comprehensive income**

In the statement of profit and loss and other comprehensive income, the share of the net profit of entities accounted for using equity method and the share of their other comprehensive income must be disclosed on dedicated lines.

When an associate or a joint venture has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognized in the associate's or joint venture's consolidated statements.

#### **IN THE STARTER KIT**

Reporting units consolidated using equity method can fill in a standard package or a more simplified one. The simplified package differs from standard package on the following points:

- It only includes information needed to automatically apply the equity method;
- It enables associates or joint ventures that hold subsidiaries, joint ventures or associates to enter consolidated data.

The equity method is automatically applied during the consolidation process.

When parent's interest in an associate or joint venture has been reduced to zero, a manual journal entry is necessary to stop accounting for additional shares in the entity's losses or to reclassify the negative amount automatically recognized in "investments accounted for using equity method" to liabilities (if an engagement exists).

## **Procedures**

#### **PRINCIPLES**

Many of the procedures described in IFRS 10 (Consolidated Financial Statements) also apply to the equity method.

## Uniform accounting policies and reporting date

The associate's or joint venture's financial statements used for the consolidation should be prepared using uniform accounting policies. If not, adjustments should be made.

In case the end of the reporting period of the parent is different from that of the associate or joint venture, this latter should prepare, for the use of consolidated statements, financial statements as of the same date as the consolidated statements. If impracticable, adjustments should be made for the effects of significant transactions or events that occur between the two dates, knowing that the difference between the end of the reporting period of the associate or the joint venture and that of the consolidated statements cannot be more than three months.

## Elimination of internal gains and losses

Gains and losses resulting from upstream and downstream transactions involving assets that do not constitute a business (as defined by IFRS 3) between a parent (or one consolidated subsidiary) and its associate or joint venture are recognized only to the extent of unrelated investors' interests in the associate or joint venture. Upstream transactions are, for example, sale of assets from an associate to the investor. The investor's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated. Downstream transactions are, for example, sales of assets from the investor to its associate.

The gain or loss resulting from a downstream transaction involving assets that constitute a business between an investor (or one of its consolidated subsidiary) and its associate or joint venture is recognized in full.

## Test for impairment

The carrying amount of the investment accounted for using equity method should be tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. If an impairment loss is recognized, it is not allocated to any asset. Accordingly, any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## IN THE STARTER KIT

In the starter kit, dividends paid by an associate or a joint venture to a consolidated entity are eliminated from P&L and reclassified to equity (same principles as with a subsidiary). Internal provisions recognized in an associate's or joint venture's individual statements towards a consolidated entity or in a consolidated entity's ledgers towards an associate or a joint venture are eliminated in full.

For gains or losses on internal sale of assets, the elimination is not booked automatically when the buyer or the seller is consolidated using the equity method. Indeed, identifying whether the transaction involves a business or not cannot be automated. Moreover, accounting schemes are not defined for the elimination of internal gains on upstream transaction (see example below). Therefore, the elimination is to be booked by manual journal entry when needed.

### Example

Entity A has a 20% interest in an associate B. B sells an item of PPE costing CU 300 to entity A for CU 500. The internal part of B's profit on this transaction (40, being  $20\% \times (500 - 300)$ ) should be eliminated. Two solutions could be considered.

#### 1) Elimination is made against the carrying amount of the associate

The accounting entries are as follows:

	Debit	Credit
Share of profit of associates (P&L)	40	
Investments accounted for using equity method		40

In the starter kit, the manual journal entry would be different, given that equity method is automatically applied by rules.

*Entity: B*

*Audit-ID: DIS11 - Elimination of internal gains and losses*

Account	Flow	Debit	Credit
P1610 – Gains or losses on sale of PPE	Y99	40	
L2610 - Deferred income	F15		40

## 2) Elimination is made against the asset transferred

The accounting entries are as follows:

	Debit	Credit
Share of profit of associates (P&L)	40	
PPE		40

This solution does not affect the value of the investment in the associate. Though consistent with IAS 28, it results in a discrepancy between the profit of associates reported in the P&L and the corresponding change in the carrying amount of the investment in associates on the balance sheet.

In the starter kit, if this option is applied, a manual journal entry should be posted at consolidated level in addition to the one needed in option 1.

*Entity: A*

*Audit-ID: DIS11 - Elimination of internal gains and losses*

Account	Flow	Debit	Credit
A1500 - Investments accounted for using equity method	F50	40	
A1180 - Other PPE	F50		40

Though possible, this solution is not our preferred one because of the mismatch mentioned above.

As regards impairment losses and any subsequent reversal, they should be booked by manual journal entries.

## Changes in investor's ownership interest

### LOSS OF SIGNIFICANT INFLUENCE OR JOINT CONTROL

When an investment ceases to be an associate or a joint venture, the use of equity method should be discontinued (IAS 28.22). All amounts previously recognized in other comprehensive income in relation to that investment should be accounted for on the same basis as if the parent had directly disposed of the related assets or liabilities. For example, if an associate has cumulative exchange differences, these amounts previously recognized in other comprehensive income are reclassified to profit or loss when the equity method is discontinued.

If the investor loses significant influence or joint control but retained an interest in the former associate or joint venture, the retained interest should be measured at fair value. The difference between the fair value and the previous carrying amount is recognized in P&L as well as the gain or loss on disposal of the interest disposed of.

If the investment becomes a subsidiary, the parent should account for its investment in accordance with IFRS3 (Business Combinations) and IFRS 10.

### INCREASE / DECREASE IN INTEREST RATE

If a parent increases its interest in an associate (or a joint venture) without achieving control (which means that the acquiree remains an associate or a joint venture afterwards), IFRS do not specify how to deal with this operation in the consolidated financial statements. It does not meet the criteria of an equity transaction given that no NCI are recognized in the balance sheet. It does not meet either the definition of a business combination as no control is achieved after the transaction. Many questions arise: should the acquisition method be applied? Should it be applied on the additional stake only or with remeasurement of the previously held interest? In this last case, should the remeasurement be recognized in profit or loss or directly to equity?

Specialists usually admit that an additional goodwill should be determined, based on the net assets' fair value at transaction date, without any remeasurement of the previously held interest.

#### Example

In 20X1, entity P takes a 33,33% interest in entity A for CU 15,000. At that date, the fair value of A's net assets is CU 36,000. A goodwill is recognized: CU 3,000 (being:  $15,000 - 33,33\% \times 36,000$ ).

In 20X5, entity P acquires a 10% additional interest in A (that still remains an associate) for CU 6,000. At that date, the fair value of A's net assets is CU 44,000. An additional goodwill of CU 1,600 ((being:  $6,000 - 10\% \times 44,000$ )) should be recognized.

As regards partial disposals, IAS 28.25 is clearer: "if an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity shall reclassify to profit and loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities". It can be inferred that a gain or loss should be recognized in the income statement on a partial disposal of a joint-venture or an associate.

If an investment in an associate becomes a joint venture or a joint venture becomes an associate, the investor continues to apply the equity method and does not remeasure the retained interest (IAS 28.24).

## **IN THE STARTER KIT**

### **Outgoing entities**

When the equity method is discontinued because the investment ceases to be an associate or a joint venture, the related entity accounted for using equity method leaves the consolidation scope. The principles are the same as with a subsidiary (see IFRS 10).

*In the reference dataset (A-GROUP-IFRSYTD-EUR), entity S1304, accounted for using equity method, is outgoing in 2019.12.*

**Associate / Joint venture becoming a subsidiary: see IFRS 3**

### **Changes in ownership interest**

The new interest rate and the new integration rate (which changes as a consequence) in the associate or joint venture accounted for using equity method are taken into account with the impact of change posted on flow FO4. Additional manual entries are left up to the user to, for example, enter a new goodwill or remeasure assets and liabilities acquired (in case of an increase) or to recognize a profit or loss on disposal (including reclassification adjustments of accumulated other comprehensive income) in case of a partial disposal.

*In the reference dataset, increase in ownership interest is illustrated by entity S1403 whereas decrease is illustrated by S1303 (both in 2019.12).*

# IAS 29| Financial Reporting in Hyperinflationary Economies<sup>1</sup>

## Principles

IAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise but gives several characteristic indicators of a hyperinflationary economy. However, an inflation rate that approaches or exceeds 100% over 3 years is usually regarded as an indicator of hyperinflation.

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period should also be restated into the same current measuring unit.

Restatement consists in applying a general price index. The gain or loss on the net monetary position is included in profit or loss and should be separately disclosed.

## In the starter kit

In the starter kit, the restatement of financial statements must be carried out before data are entered in the package.

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<sup>1</sup> Issued: July 1989.

# IAS 32 | Financial Instruments: Presentation<sup>1</sup>

## Foreword

Requirements for financial instruments are included in IAS 32, IAS 39, IFRS 7 and IFRS 9.

IAS 32 deals with the presentation of financial instruments including (i) the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments, (ii) the classification of related interests, dividends, gains and losses and (iii) the circumstances in which financial assets and financial liabilities should be offset.

A financial instrument is defined under IFRS as “any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity” (IAS 32.11), which is extremely wide and encompasses a large part of the balance sheet (cash, debt and equity investments, receivables and payables, ...).

However, some financial instruments are excluded from the scope of IAS 32 because they are dealt with by other standards:

- Interests in subsidiaries, associates or joint ventures (IFRS10, IAS 27, IAS 28), except when these interests are measured in accordance with IFRS 9,
- Employers' rights and obligations under employee benefit plans (IAS 19),
- Contracts that are within the scope of IFRS 17 (insurance),
- Financial instruments, contracts and obligations under share-based payment transactions (IFRS 2).

## Classification of financial instruments

### REQUIREMENTS

The classification of a financial instrument by the issuer either as a financial asset, a financial liability or an equity instrument is based on substance rather than on its legal form. Simply put, an instrument is a liability (as opposed to equity) if the issuer is or can be obliged to deliver either cash or another financial asset to the holder. However, this classification may be really complex, especially as regards the distinction between liability and equity, because financial instruments tend to be more and more sophisticated.

Not all instruments are either debt or equity. Some instruments, referred to as 'compound financial instruments', contain both a liability and an equity component.

For example, a bond convertible by the holder into ordinary shares of the entity is a compound financial instrument. The economic effect of issuing such an instrument is substantially the same as issuing simultaneously a debt instrument with an early settlement provision and warrants to purchase ordinary shares.

Such instruments have to be split into debt and equity components, each of them being accounted for separately. The debt component is determined first by measuring the fair value of a similar liability (without equity component) and the residual is assigned to equity.

Example (extract from IAS 32 Illustrative Examples, IE35&36)

An entity issues 2,000 convertible bonds at the start of year 1. The bonds have a three-year term and are issued at par with a face value of CU1,000 per bond, giving total proceeds of CU2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6%. Each bond is convertible at any time up to maturity into 250 ordinary shares. When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9%.

The liability component is measured first, and the difference between the proceeds of the bond issue and the fair value of the liability is assigned to the equity component. The present value of the liability component is calculated using a discount rate of 9%, the market interest rate for similar bonds having no conversion rights, as shown below.

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<sup>1</sup> Issued: June 1995. Last amendments: December 2017.

	CU
Present value of the principal - CU2,000,000 payable at the end of three years	1 544 367
Present value of the interest - CU120,000 payable annually in arrears for three years	303 755
Total liability component	1 848 122
Equity component (by deduction)	151 878
Proceeds of the bond issue	2 000 000

When an entity purchases its own shares, those instruments ('treasury shares') should be deducted from equity. No gain or loss should be recognized in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Consideration paid or received for the purchase or sale of treasury shares are recognized directly in equity.

In the consolidated statements, these principles apply regardless whether the parent's shares are held by the parent company itself or by consolidated subsidiaries. Parent's shares held by joint-ventures or associates are not handled as treasury shares in the consolidated statements.

## IN THE STARTER KIT

### Compound financial instruments

In the starter kit, a compound financial instrument is first recognized as a debt (for example in the account L1530 Convertible bonds). Then, the equity component is reclassified to a dedicated account (E1570 Equity component of compound financial instruments) using non-cash transfer flow F50. This movement is displayed separately in the statement of changes in equity.

In the example provided by IAS 32 and presented above, the accounting entries would be as follows:

<i>Account</i>	<i>Flow</i>	<i>Debit</i>	<i>Credit</i>
<b>Proceeds from the issuance</b>			
A2610 Cash on hand	F15	2 000 000	
L1530 Convertible bonds	F20		2 000 000
<b>Reclassification of the equity component</b>			
L1530 Convertible bonds	F50	151 878	
E1570 Equity component of compound financial instruments	F50		151 878

At the end of each reporting period, the additional interest expense that arises from the use of the effective interest rate, which is different from the nominal interest rate used to calculate the interests paid, is booked in profit or loss with a counterpart on the account L2350 Accrued interests on financial liabilities and payables. This accounting scheme ensures the accuracy of cash flow statement items.

Based on the example above, the accounting entries needed when closing year 1 would be the following:

<i>Account</i>	<i>Flow</i>	<i>Debit</i>	<i>Credit</i>
<b>Interests paid (6% x 2,000,000)</b>			
P2220 Interest expenses	Y99	120 000	
A2610 Cash on hand	F15		120 000
<b>Additional interest expenses calculated using the effective interest rate (9% x 1,848,122 - 120,000)</b>			
P2220 Interest expenses	Y99	46 331	
L2350 Accrued interests on financial liabilities and payables	F15		46 331
<b>Reclassification of interests (that are not payable)</b>			
L2350 Accrued interests on financial liabilities and payables	F50	46 331	
L1530 Convertible bonds	F50		46 331

### Treasury shares

In the consolidated statements, treasury shares are the parent company's shares held by the parent company itself or by consolidated subsidiaries. On the contrary, when a consolidated entity holds its own shares, those are deducted from equity as treasury shares in the local statements but do not qualify as treasury shares at the consolidated level.

- Treasury shares held by the parent company

At acquisition date, treasury shares are deducted from equity using the dedicated account E1310 and the flow F20. When sold, the consideration received is credited to equity using the same account and the flow F30.

These movements are displayed separately in the statement of cash flows, as financing items, and in the statement of changes in equity.

- Parent company's shares held by subsidiaries

In the subsidiary's individual financial statements, such shares are treated as financial assets measured at fair value. In the starter kit, subsidiaries should use the account A1810 "Investments in subsidiaries, JV and associates", so that an analysis by share (that would be the parent company in this case) can be input.

These shares have to be reclassified against equity by manual journal entries using the accounts E1310 Treasury shares and E2070 Non-controlling interests – treasury shares when the subsidiary is not wholly owned. Flows to be used are the same as when the treasury shares are held by the parent company itself (see above).

- Treasury shares of consolidated entities

Treasury shares of consolidated entities, regardless of whether they are subsidiaries, joint-ventures or associates, cannot be presented as treasury shares in the consolidated statements.

In the starter kit, treasury shares deducted from equity in the packages (local data) other than the parent company's package are automatically reclassified to retained earnings. When a consolidated entity buys or sells its own shares, it mechanically results in an increase or a decrease in its interest rate (because it modifies the denominator used to calculate the group's interest rate). For that reason, movements booked on flows F20 (acquisition) and F30 (sale) are reclassified to retained earnings using flow F92 (changes in interest rate) in the consolidated statements.

In the statement of changes in equity and in the statement of cash flows, these movements are handled as transactions with non-controlling interests.

## Interest, dividends, losses and gains

### REQUIREMENTS

The treatment of interest, dividends, losses and gains relating to a financial instrument follows the classification of the related instrument. As a consequence, interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability are recognized as income or expense in profit or loss. Distributions to holders of an equity instrument should be debited by the entity directly to equity, net of any related income tax benefit. Transaction costs of an equity transaction should be accounted for as a deduction from equity, net of any related income tax benefit.

### IN THE STARTER KIT

The starter kit provides several accounts to record income or expenses relating to financial instruments in the income statement (for example: P2220 Interest expenses).

As regards distributions to be debited directly from equity, a dedicated flow (F06) is available to account for these operations. Transaction costs of equity transactions are deducted from equity using the same flow as the underlying operation. For example, an issue of shares is accounted for using flow F40 on accounts E1110 Capital and (if necessary) E1210 Share Premium. Related costs are deducted from equity using the same flow F40.

## Offsetting a financial asset and a financial liability

A financial asset and a financial liability should be offset and the net amount presented in the statement of financial position when, and only when, an entity:

- currently has a legally enforceable right to offset the recognized amounts; and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

In the starter kit, the transfer flow F50 is to be used for offsetting a financial asset and a financial liability when appropriate.



# IAS 34 | Interim Financial Reporting<sup>1</sup>

## Requirements

IAS 34 does not mandate which entities should publish interim financial reports, or how frequently or how soon after the end of an interim period. Those matters should be decided by national governments, securities regulators or accountancy bodies.

IAS 34 defines the minimum content of an interim financial report, including disclosures, and identifies the accounting recognition and measurement principles that should be applied in an interim financial report.

As regards financial statements, an interim financial report presents either a complete set of financial statements as described in IAS 1 or a set of condensed financial statements as listed below:

- A condensed statement of financial position,
- A condensed statement of profit or loss and other comprehensive income (one or two statements as with the annual statements),
- A condensed statement of changes in equity,
- A condensed statement of cash flows, and
- Selected explanatory notes.

Those condensed statements should include at least the headings and subtotals that were included in the most recent annual financial statements.

The periods to be presented and their comparatives are as follows<sup>2</sup>:

Statement	Period(s) to be presented		Comparative(s)	
Statement of financial position	At the end of the current interim period <i>30 September Y</i>		At the end of the previous financial year <i>31 December Y-1</i>	
Statement of profit or loss and other comprehensive income	Current interim period <i>1 July Y to 30 September Y (3 months)</i>	Year-to-date <i>1 January Y to 30 September Y (9 months)</i>	Same interim period of the previous financial year <i>1 July Y-1 to 30 Sept Y-1 (3 months)</i>	Comparable year-to-date period of the previous financial year <i>1 January Y-1 to 30 Sept. Y-1 (9 months)</i>
Statement of changes in equity	Year-to-date <i>1 January Y to 30 September Y</i>		Comparable year-to-date period of the previous financial year <i>1 January Y-1 to 30 September Y-1</i>	
Statement of cash flows	Year-to-date		Comparable year-to-date period of the previous financial year	
	<i>1 January Y to 30 September Y</i>		<i>1 January Y-1 to 30 September Y-1</i>	

## In the starter kit

As IAS 34 does not define clearly what “condensed” statements should be, no specific report has been designed in the starter kit for interim reports. Financial statements available for annual reports can be used for interim publication or as a starting point to design dedicated interim reports.

<sup>1</sup> Issued: February 1998. Last amendments: May 2017.

<sup>2</sup> Examples given for a financial year ending 31 December and an interim period ending 30 September

# IAS 36 | Impairment of Assets<sup>1</sup>

## Requirements

IAS 36 prescribes the procedures an entity should apply to ensure that its assets are carried at no more than their recoverable amount.

IAS 36 applies to all assets (including current assets) except inventories (see IAS 2), deferred tax assets (IAS 12), assets arising from employee benefits (IAS 19), investment property measured at fair value (IAS 40), biological assets measured at fair value less costs to sell (IAS 41), non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, financial assets (IFRS 9), assets arising from construction contracts (IFRS 15) and contracts within the scope of IFRS 17 (insurance).

### WHEN SHOULD IMPAIRMENT TESTS BE COMPLETED?

An entity should assess at each reporting date (including interim reporting dates) whether there is any indication that an asset may be impaired. IAS 36 lists several indicators, including external as well as internal sources of information, which have to be considered (such as an increase in interest rates).

Irrespective of whether there is any indication of impairment, goodwill and other intangibles with indefinite useful lives must also be tested for impairment annually. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year.

### HOW SHOULD AN IMPAIRMENT TEST BE PERFORMED?

An impairment test consists in comparing the carrying amount of an asset with its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. To keep it simple, it is the greatest amount of cash flows that the entity can expect to derive from the asset, either by selling it (fair value less costs to sell) or by continuing to use it (value in use). IAS 36 gives detailed guidance on how to measure both fair value and value in use.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In that case, the impairment test is performed at the CGU<sup>2</sup> level to which the asset belongs.

For example, goodwill does not generate cash flows independently from other assets. Therefore, IAS 36 requires that goodwill should, from the acquisition date, be allocated to each of the CGU (or groups of CGU) that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated should represent the lowest level within the entity at which the goodwill is monitored for internal management purposes. It cannot be larger than an operating segment determined in accordance with IFRS 8.

### HOW IS AN IMPAIRMENT LOSS MEASURED AND RECOGNIZED?

If the recoverable amount of an asset or a CGU is less than its carrying amount, an entity should reduce the carrying amount to the recoverable amount. This reduction is an impairment loss.

For an individual asset, an impairment loss is recognized in profit or loss unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16). Any impairment loss of a revalued asset is treated as a revaluation decrease.

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<sup>1</sup> Issued: June 1998. Last amendments: May 2017.

<sup>2</sup> A CGU (Cash Generating Unit) is defined as "the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets" (IAS 36.6)

For a CGU (or a group of CGU), the impairment loss should be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

- first, goodwill allocated to the CGU (group of CGU)
- then, other assets of the CGU (group of CGU) pro rata on the basis of the carrying amount of each asset.

However, within this allocation framework, the carrying amount of an asset cannot be reduced below the highest of:

- its fair value less costs to sell (if determinable),
- its value in use (if determinable), and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated pro rata to the other assets of the CGU (group of CGU).

## **GOODWILL AND NON-CONTROLLING INTERESTS**

Under IFRS 3, an entity has a policy choice for each business combination to measure any non-controlling interest in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets.

### **Non-controlling interests measured at their proportionate share of identifiable assets**

If an entity measures non-controlling interests at their proportionate interest in the net identifiable assets, goodwill is recognized only to the extent of the acquirer's interest. When a CGU to which such goodwill has been allocated to is tested for impairment, its carrying amount includes 100% of its assets and liabilities except from goodwill that only represents the parent's share. As a consequence, IAS 36 requires grossing up the carrying amount of goodwill allocated to the CGU to include the "notional" goodwill attributable to the non-controlling interest.

If the recoverable amount of the CGU is lower than its notional carrying amount, an impairment loss is recognized. This impairment loss includes a loss attributable to the notional goodwill allocated to non-controlling interests. That element of the loss is not recognized as an impairment loss.

### **Non-controlling interests measured at fair value**

No notional adjustment is needed if non-controlling interests have been measured at fair value because the goodwill on the balance sheet already includes the goodwill attributable to non-controlling interests.

Any impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.

## **REVERSALS OF IMPAIRMENT LOSSES**

An entity should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the entity should estimate the recoverable amount of the related asset (or CGU).

An impairment loss should be reversed when there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. That increase is a reversal of an impairment loss.

However, the increased carrying amount of an asset attributable to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is recognized in profit or loss, unless the asset is carried at revalued amount in accordance with another IFRS (for example, the revaluation model in IAS 16). Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase in accordance with that other IFRS.

These principles apply to individual assets and to CGU except from goodwill. IAS 36 prohibits the recognition of reversals of impairment losses for goodwill.

# In the starter kit

## OVERALL PRINCIPLES

Considering the exceptions listed in the scope (see above), the principles set out in IAS 36 apply mainly to PPE, investment property measured at cost, goodwill and other intangible assets and, in separate statements only, to investments in subsidiaries, joint-ventures and associates measured at cost.

For these items, the starter kit includes dedicated accounts for impairment. For example, as regards land and buildings, three accounts are used:

- A1110 - gross amount
- A1111 - accumulated depreciation
- A1112 - accumulated impairment

For these accounts, an impairment loss is recognized using flow F25 whereas a reversal uses the flow F35.

## IMPAIRMENT OF GOODWILL

In the starter kit, an impairment of goodwill is booked automatically in the consolidated balance sheet (account A1312) and in the income statement (account P1630) based on the amount of impairment loss declared by manual journal entries (see IFRS 3).

## IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, JV AND ASSOCIATES

In the packages, any impairment of investments in subsidiaries, joint-ventures and associates is posted to dedicated accounts, both in the balance sheet (A1812 Investments in subsidiaries, JV and associates, Impair.) and in the P&L (P2210 Allowances (reversals) for provisions on shares).

At consolidated level, any of these amounts relating to a consolidated subsidiary, joint-venture or associate is automatically eliminated in the starter kit according to the overall principle of elimination of internal gains and losses.

# IAS 37 | Provisions, Contingent Liabilities and Contingent Assets<sup>1</sup>

## Requirements

The objective of IAS 37 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets.

### DEFINITIONS

A provision is defined as “a liability of uncertain timing or amount” (IAS 37.10). As a consequence, the difference between provisions and other categories of liabilities is the degree of certainty about the amount of the payment or the timing of the payment.

Contingent liabilities differ from provisions because either they are possible obligations (and not present obligations) to be confirmed by a future event (that is outside the control of the entity) or they are present obligations that do not meet the recognition criteria set out below (e.g. probability that a payment will occur).

A contingent asset is “a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity” (IAS 37.10)

### ACCOUNTING RULES

#### Provisions

A provision is recognized when the following conditions are met:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation
- The amount of the obligation can be estimated reliably

Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.

IAS 37 does not specify whether the impact of provision should be treated as an expense or capitalized. It points out that other IFRSs do. For example, decommissioning costs are usually included in the cost of some facilities (oil installation, nuclear reactor, and so on) as required by IAS 16.

Once a provision has been established, it should be reviewed at the end of each reporting period and adjusted if necessary to reflect the current best estimate. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as a borrowing cost.

A provision should be used only for expenditures for which it was originally recognized. It means that only expenditures that relate to the original provision are set against it.

#### Contingent assets and liabilities

Contingent liabilities and contingent assets should not be recognized but only disclosed.

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<sup>1</sup> Issued: September 1998. Last amendments: May 2017.

## In the starter kit

As regards provisions, the starter kit provides the following accounts:

Categories of provisions	Current portion	Non-current portion
Warranty	L2210	L1210
Restructuring	L2220	L1220
Legal proceedings	L2230	L1230
Onerous contracts	L2240	L1240
Decommissioning, restor. & rehabilit. costs	L2250	L1250
Miscellaneous	L2260	L1260

The recognition of a new provision or the increase in an existing one is accounted for using flow F25. On reversal, whether used or written off, the flow to be used is flow F35.

Internal (intra group) provisions are automatically eliminated in full according to the overall principle of elimination of internal gains and losses.

# IAS 38| Intangible Assets<sup>1</sup>

## Principles

IAS 38 prescribes the accounting treatment for intangible assets with the exception of impairment which is dealt with in IAS 36.

### INITIAL RECOGNITION

#### General principles

To be recognized, an intangible asset must meet, first, the definition of such an asset and the recognition criteria.

To meet the definition of an intangible asset, an item must be identifiable. It is identifiable if either it is separable (capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged) or arises from contractual or other legal rights. It also must meet the definition of an asset which is, a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

The recognition criteria are as follows:

- It is probable that future economic benefits associated with the item will flow to the entity; and
- The cost of the item can be measured reliably.

An intangible asset should be measured initially at cost.

#### Internally generated intangible assets

As regards internally generated intangible assets, all expenditures incurred during the research phase are recognized as an expense. Development costs that meet the recognition criteria must be capitalized. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets because the related expenditures cannot be distinguished from the cost of developing the business as a whole.

### SUBSEQUENT MEASUREMENT

IAS 38 permits an entity to adopt either the cost model or the revaluation model as its accounting policy. The revaluation model may only be adopted if the intangible assets are traded in an active market (which is uncommon, but may exist in particular cases, such as taxi licenses or production quotas in some jurisdictions). This choice is made for an entire class of intangible asset and not asset by asset.

Examples of classes of assets given by IAS 38 are brand names, mastheads and publishing titles, computer software, licenses and franchises, copyrights, patents and other industrial property rights, service and operating rights, recipes, formulae, models, designs and prototypes, and intangible assets under development.

#### Cost model

Under the cost model, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses.

#### Revaluation model

Under the revaluation model, an intangible asset is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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<sup>1</sup> Issued: September 1998. Last amendments: May 2017.

When an intangible asset is revalued, any accumulated amortization at the date of the revaluation is treated in one of the following ways:

- Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset

The amount of the adjustment arising on the restatement or elimination of accumulated amortization forms part of the increase or decrease in the carrying amount that is accounted for in accordance with paragraphs below.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The cumulative revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset. However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between amortization based on the revalued carrying amount of the asset and amortization that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

## **AMORTIZATION**

An entity should assess whether the useful life of an intangible asset is finite or indefinite. 'Indefinite' does not mean 'infinite'. An intangible asset should be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Intangible assets with indefinite useful lives are not amortized but are tested for impairment on an annual basis.

The depreciable amount of an intangible asset with a finite useful life should be allocated on a systematic basis over its useful life. The depreciable amount of an asset is determined after deducting its residual value. According to IAS 38, the residual value of an intangible asset with a finite useful life is assumed to be zero unless there is a commitment by a third party to purchase the asset or there is an active market for the asset.

The amortization method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Variety of methods can be used. Examples given by IAS 38 are the straight-line method, the diminishing balance method and the units of production method.

The amortization charge for each period should be recognized in profit or loss unless it is included in the carrying amount of another asset (for example, in inventory as part of an allocation of overheads).

## **DERECOGNITION**

The carrying amount of an intangible asset shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds, if any, and the carrying amount of the item. It should be included in profit or loss when the item is derecognized. Gains should not be classified as revenue.



# In the starter kit

## CATEGORIES OF INTANGIBLE ASSETS

As regards intangible assets covered by IAS 38, the following accounts are available in the starter kit:

Classes of assets	Gross amount	Accumulated amortization	Accumulated impairment
Brand names	A1410	A1411	A1412
Mastheads and publishing titles	A1430	A1431	A1432
Computer software	A1440	A1441	A1442
Licenses and franchises	A1450	A1451	A1452
Patents, trademarks and other rights	A1460	A1461	A1462
Recipes, formulae, models, designs and prototypes	A1470	A1471	A1472
Intangible assets under development	A1480	Not applicable	A1482
Other intangible assets	A1490	A1491	A1492

## ACCOUNTING SCHEMES

### Initial recognition

On acquisition of a new intangible asset, the flow F20 (acquisition) is used. If this item was previously recognized as an intangible asset under development, the reclassification is made using flow F50 (non-cash).

### Subsequent measurement

The starter kit supports both methods: cost model and revaluation model.

- Amortization and impairment

Amortization charges are credited to the corresponding account of intangible asset (for example: A1411 for the amortization of brand names) using flow F25. The P/L account to be used depends on the way amortization charges are allocated (cost of sales, administrative expenses ...).

The accounting scheme is the same for an impairment loss except that the account to be credited is a dedicated one (for example: A1412 for impairment of brand names). For reversals of impairment losses, the flow to be used is F35.

- Revaluation

The revaluation model uses the flow F55 for both the revalued asset and the impact in equity (on dedicated account E1510 Revaluation surplus).

### Derecognition

When an intangible asset is sold, the carrying amount is derecognized using flow F30. In the profit or loss, the gain or loss is recognized in the account P1612 Gain or loss on sale on intangible asset.

When an intangible asset is written off, the flow to be used is flow F50 (there is no impact on P&L because the asset should have been fully amortized or impaired before being derecognized).

# IAS 39 | Financial Instruments: Recognition and Measurement<sup>1</sup>

The replacement of IAS 39 was added to the active agenda of the Board in 2008 and divided into phases. Once a phase was completed, the corresponding chapters were created in IFRS 9 and withdrawn from IAS 39.

The fourth and final version of IFRS 9 was issued in July 2014 with an effective date being 1 January 2018. However, a company may choose to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9. Therefore, IAS 39 remains an active standard (though optional), regarding only hedge accounting.

## Hedge accounting

### PRINCIPLES

To keep it simple, hedge accounting allows for offsetting P&L effects of both hedging instrument and hedged item in the same accounting period. Only hedging relationships that meet the conditions listed by IAS 39 (including effectiveness) can benefit from hedge accounting. IAS 39 defines three types of hedges:

- Fair value hedge defined as “a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss” (IAS 39.86). An example of fair value hedge is an interest rate swap hedging a fixed rate borrowing.
- Cash flow hedge defined as “a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and (ii) could affect profit or loss” (IAS 39.86). An interest rate swap hedging a variable rate borrowing is an example of cash flow hedge.
- Hedge of a net investment in a foreign entity, as defined in IAS 21.

In a fair value hedge, the change in fair values of both the hedging instrument and the hedged item are recognized in profit or loss when they occur.

In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income whereas the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period(s) during which the asset acquired or liability assumed affects profit or loss (such as in the periods in which interest income or interest expense is recognized).

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, then the entity has to apply one of the following methods. The gain or loss on the hedging instrument that was previously recognized in other comprehensive income can be:

- reclassified from equity to profit or loss as a reclassification adjustment in the same period(s) in which the financial asset or liability affects profit or loss, or
- removed from equity and included in the initial cost of the acquired asset or liability.

A hedge of a net investment in a foreign operation is similarly treated as a cash flow hedge.

### IN THE STARTER KIT

The accounting schemes embedded in the starter kit comply with both IAS 39 and IFRS 9 for hedging (see IFRS 9 section for more detail).

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<sup>1</sup> Issued: March 1999; last amendments: January 2016

# IAS 40 | Investment Property<sup>1</sup>

## Requirements

An investment property is defined as “a property (land or a building—or part of a building—or both) held to earn rentals or for capital appreciation or both, rather than for (i) use in the production or supply of goods or services or for administrative purposes; or (ii) sale in the ordinary course of business”. (IAS 40.5)

### RECOGNITION AND MEASUREMENT

Recognition criteria are the same as those for PPE defined by IAS 16 (existence of future economic benefits and cost measured reliably).

An investment property should be measured initially at its cost. The cost of an investment property comprises its purchase price and any directly attributable expenditure (such as professional fees for legal services, property transfer taxes and so on).

IAS 40 permits an entity to choose as its accounting policy either the fair value model or the cost model. The chosen accounting policy is applied to all of its investment property.

Under the fair value model, investment property is measured at fair value, and changes in fair value are recognized in profit or loss. The fair value of investment property should reflect market conditions at the end of the reporting period.

Under the cost model, investment property is measured at depreciated cost less any accumulated impairment losses. Fair value of the investment property is disclosed.

### TRANSFERS

IAS 40 deals in detail with transfers to or from investment property. Transfers should be made when and only when there is a change of use.

If the entity uses the fair value model for investment property, the fair value at the date of transfer becomes the deemed cost for subsequent accounting under IAS 16 or IAS 2 when the investment property becomes owner-occupied property (reclassified to PPE) or is to be developed for sale (reclassified to inventories).

Where an owner-occupied property becomes an investment property that will be carried at fair value, any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value is treated in the same way as a revaluation in accordance with IAS 16.

For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in profit or loss.

When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in profit or loss.

### DERECOGNITION

An investment property should be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss (unless IFRS 16 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

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<sup>1</sup> Issued: April 2000. Last amendments: May 2017

# In the starter kit

The starter kit includes three accounts for investment property:

- A1210 for gross amount
- A1211 for accumulated depreciation
- A1212 for accumulated impairment losses

The accounting schemes are described below.

## Initial recognition

On acquisition of a new investment property, the flow F20 (acquisition) is used.

## Subsequent measurement

The starter kit supports both methods: cost model and fair value model.

- Depreciation and impairment

Depreciation charges are credited to the corresponding account (A1211) using flow F25. The P/L account to be used depends on the way depreciation charges are allocated (cost of sales, administrative expenses, and so on). The accounting scheme is the same for an impairment loss except that the account to be credited is the dedicated one (A1212). For reversals of impairment losses, the flow to be used is F35.

- Fair value model

Changes in value are recorded using flow F55 for the asset side with a counterpart usually posted to account P1660 Operating fair value gains and losses.

## Transfer

When an item is transferred from investment property to PPE or to inventories, the carrying amount is transferred from one account to the other using transfer flow F50.

When an item is transferred from PPE to investment property, it shall be first remeasured at fair value using flow F55 on the initial account (for example A1110 Lands and buildings), with the counterpart in the account E1510 Revaluation surplus using the same flow. Then, the new carrying amount is transferred from PPE to investment property using transfer flow F50.

When an item is transferred from inventories to investment property or from construction in progress to investment property, principles are the same as above except that remeasurement to fair value affects P&L (usually the account P1660 Operating fair value gains and losses) instead of other comprehensive income.

## Derecognition

When an investment property is sold, the carrying amount is derecognized using flow F30. In the profit or loss, the gain or loss is recognized in the account P1611 Gain or loss on sale on investment property.

When an investment property is written off, the flow to be used is flow F50 (no impact on P&L because the asset should have been fully depreciated or impaired before being derecognized).

# IFRS 2 | Share-based Payment<sup>1</sup>

## Requirements

IFRS 2 prescribes the accounting for share-based payment transactions. There are three categories of share-based payment transactions:

- “Equity-settled”: the entity receives goods or services as consideration for its own equity instruments (for example: employee-share option schemes)
- “Cash-settled”: the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity’s shares or other equity instruments of the entity
- Transactions with settlement alternatives: the entity acquires goods or services and either the entity or the supplier may choose settlement in the form of cash or equity instruments of the entity.

The goods or services acquired in a share-based payment transaction should be recognized, either as an expense or as an increase in assets, when they are received. The entity recognizes a corresponding increase in equity in case of an equity-settled transaction, or a liability in case of a cash-settled transaction.

### EQUITY-SETTLED TRANSACTIONS

For equity-settled share-based payment transactions, the entity should measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

If the entity cannot estimate reliably the fair value of the goods or services received, the entity should measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted (IFRS 2.10). This is typically the case for employee services. Share options are often granted to employees as part of their remuneration package in addition to a cash salary and other benefits. It is therefore difficult to estimate the fair value of the additional benefits obtained from this additional remuneration.

A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity’s employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity’s share price. Vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions should be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognized for goods or services received as consideration for the equity instruments granted should be based on the number of equity instruments that eventually vest. (IFRS 2.19)

No subsequent adjustment to total equity should be made after vesting date. For example, in the case of share options, the entity should not subsequently reverse the amount recognized for services received from an employee if the options are not exercised. However, transfer within equity from one component to another is permitted.

### CASH-SETTLED TRANSACTIONS

For cash-settled share-based payment transactions, the entity should measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. (IFRS 2.30)

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<sup>1</sup> Issued: February 2004. Last amendments: July 2014.

## TRANSACTIONS WITH SETTLEMENT ALTERNATIVES

Transactions with settlement alternatives (cash or equity instruments) are accounted for as cash-settled if, and to the extent that, a liability exists to settle in cash or other assets, or otherwise as equity-settled. In other words, the accounting treatment depends on which party has the choice of settlement method.

If the counterparty has the choice of settlement method, it is as if the entity has issued a compound financial instrument, which includes a debt component and an equity component (see IAS 32).

If the entity may choose the settlement method, it should determine whether it has, in substance, a present obligation to settle in cash (for example, the entity has a past practice or a stated policy of settling in cash). If such an obligation exists, the entity should account for the transaction as cash-settled. Otherwise, the transaction should be treated as an equity-settled share-based payment transaction.

## In the starter kit

Cash-settled share-based payment transactions do not call for further comment. Indeed, they may raise difficulties when it comes to measuring the fair value of the liability, because it rests on the measurement of the entity's shares. However, once this value is measured, the accounting treatment is the same as with any transaction settled in cash.

For equity-settled share-based payment transactions, IFRS 2 requires that the entity recognize an expense (or an asset) and a corresponding increase in equity. However, IFRS 2 does not stipulate where in equity the credit entry should be recognized. In the starter kit we suggest to use the retained earnings account (E1610) with the flow F20. This transaction will be presented on a dedicated row in the statement of changes in equity as well as in the statement of cash flows (eliminated from profit or loss as it represents a non-cash transaction).

# IFRS 3| Business Combinations<sup>1</sup>

IFRS 3 specifies the accounting treatment of business combinations, which are defined as transactions in which an acquirer obtains control of one or more businesses.

According to IFRS 3, each business combination should be accounted for using the acquisition method. IFRS 3 lists four steps in applying the acquisition method:

- 1) Identify the acquirer
- 2) Determine the acquisition date
- 3) Recognize and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
- 4) Recognize and measure goodwill or a gain from a bargain purchase.

The first two steps are not handled in the consolidation software and are not therefore addressed in this document.

## First consolidation of an entity

### MEASURING ASSETS AND LIABILITIES

The acquirer should recognize, separately from goodwill, the identifiable assets acquired and the liabilities assumed and measure them at their acquisition-date fair values. It may result in recognizing some assets and liabilities that the acquiree had not previously recognized in its financial statements (for example, intangible assets such as brand name or customer relationship). These acquisition-date fair values become the initial carrying values of the acquired assets and liabilities in the consolidated financial statements.

In the starter kit, adjustments resulting from the remeasurement of identifiable assets and liabilities (including recognition of assets and liabilities that do not exist in the subsidiary's separate statements) are booked manually using a dedicated audit-ID (FVA11). Impacts on deferred tax assets and liabilities are also booked manually using the same audit-ID.

Two specific cases need further analysis:

- Accumulated other comprehensive income (other than foreign currency translation reserve)

At the acquisition date, accumulated other comprehensive income can exist in the acquiree's separate financial statements. These reserves (revaluation surplus, hedging reserve and fair value reserve) represent the difference between the fair value of the underlying assets (intangible and tangible assets for which revaluation method is applied, hedging instruments used in a cash flow hedge and available-for-sale financial assets) and their original value.

Since these assets are already measured at their fair value, no manual adjustment is generally necessary at the acquisition date. However, in our opinion, the difference between fair value and original value should be part of the acquired equity which means that the accounts mentioned above should be reclassified in ordinary reserves (retained earnings). This reclassification is automatically done by rules in the starter kit.

- Foreign currency translation reserve

The starter kit for IFRS does not allow data collection at a sub consolidated level, except for entities accounted for using the equity method (specific data entry schedules).

For those entities, the foreign currency translation reserve existing as at the acquisition date should be reclassified to retained earnings in the consolidated statements, given that every asset and liability has to be measured at the acquisition-date fair value and translated into group currency using the acquisition-date exchange rate. This reclassification is automatically done by rules in the starter kit.

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<sup>1</sup> Issued: March 2004. Last amendments: December 2017.

## MEASURING NON-CONTROLLING INTERESTS (NCI)

For each business combination, the acquirer should measure any non-controlling interest in the acquiree either at fair value (which is mandatory under revised US GAAP) or at their proportionate share of the acquiree's identifiable net assets. This choice is available for each business combination, so an entity can use fair value for one business combination and the proportionate share of the acquiree's identifiable net assets for another.

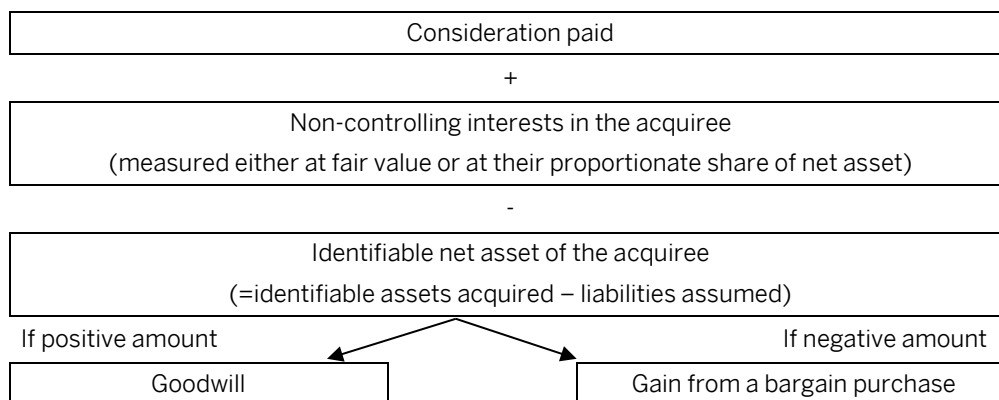
For the purpose of measuring NCI at fair value, it may be possible to determine the acquisition-date fair value on the basis of active market prices for the equity shares not held by the acquirer. When a market price is not available because the shares are not publicly traded, the acquirer should measure the fair value of NCI using other valuation techniques.

When non-controlling interest are measured at fair value, the difference between this amount and their proportionate share of the identifiable net assets is recognized as goodwill (see below).

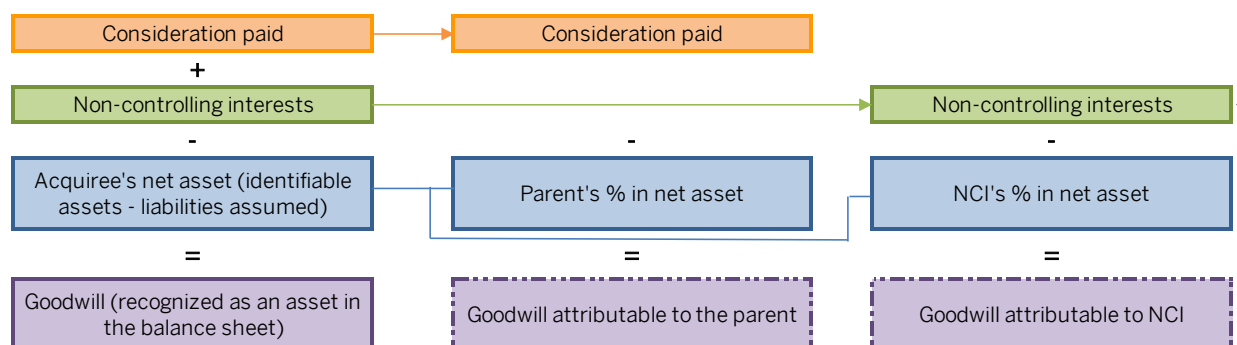
## GOODWILL OR GAIN FROM A BARGAIN PURCHASE

### Principles

According to IFRS 3 revised, goodwill or gain from a bargain purchase is calculated as follows:



These calculation principles can also be presented as follows to better illustrate the impact of the choice regarding the measurement of non-controlling interests (example given for a goodwill but principles remain the same for a bargain purchase):



\* When NCI are measured at their proportionate share of assets, the outcome is nul (no goodwill is recognized => partial goodwill method)

### In the starter kit

The starter kit offers an automatic calculation and booking of goodwill for incoming entities. However, this calculation only applies to the parent's share. If non-controlling interests are measured at fair value, a manual journal entry should be booked to declare the amount of goodwill attributable to non-controlling interests. This declaration will then be used to automatically book the corresponding entry in the consolidated balance sheet.



To be more precise, the configuration regarding goodwill relies on dedicated off-balance (technical) accounts (XA1310 for goodwill, XA1300 for bargain purchase). These accounts are populated (automatically or manually) with a breakdown per share used to identify the owner company or the non-controlling interests when need be.

#### Example

Parent P pays CU 1,000 for 80% of subsidiary S. At the acquisition date, the fair value of S' net assets is CU 700. Parent P elects to measure non-controlling interests at fair value for this transaction; fair value of NCI is determined to be CU 200.

Goodwill is calculated as follows:

	Total	Parent		NCI	
Consideration paid	1 000	1 000			
Fair value of NCI	200			200	
Fair value of S' net assets	700	80%	560	20%	140
Goodwill	500	440		60	

In the starter kit, the goodwill attributable to the parent is calculated automatically and booked on the dedicated off-balance account:

Entity: S (subsidiary)

Audit-ID: GW00 - **Automatic entry**

Account	Flow	Debit	Credit	Share	Debit	Credit
XA1310 – Goodwill declared	F01	440		P	440	

The goodwill attributable to NCI should be declared by manual journal entry as follows:

Entity: S (subsidiary)

Audit-ID: GW01 - **Manual entry**

Account	Flow	Debit	Credit	Share	Debit	Credit
XA1310 – Goodwill declared	F01	60		TP-999	60	

Both entries are used by consolidation rules to trigger the following accounting entry:

Audit-ID: GW10 - **Automatic entry**

Account	Flow	Debit	Credit
A1310 – Goodwill (asset)	F01	500	
E1610 – Retained earnings	F01		440
E2010 – Non-controlling interests	F01		60

The automatic calculation of goodwill is optional. It can be easily disabled by removing the subset 11-GWC from the set of rules used for consolidation.

In case of a bargain purchase, the related gain is booked on a dedicated account in profit or loss (P1640 Gain on a bargain purchase).

*In the reference dataset (A-GROUP-IFRSYTD-EUR), entity S1103 is acquired in 2019.12,*

## Step acquisition

IFRS 3 provides additional guidance for applying the acquisition method to particular types of business combinations such as business combinations achieved in stages (also referred to as "step acquisition").

In a business combination achieved in stages, the acquirer should remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest (IFRS 3.42).

Step acquisitions cover the following situations:

- Associate becoming a subsidiary
- Joint-venture becoming a subsidiary

## ASSOCIATE BECOMES A SUBSIDIARY

### Principles

According to IFRS 3, this operation is similarly treated as if the interest in the associate was disposed of and a controlling interest in a subsidiary was acquired.

Therefore, the different stages are the following:

- Other comprehensive income of the associate that has been previously recognized is recycled on the same basis as would be required if the acquirer has disposed of its interest in the associate
- The acquirer remeasures its previously held equity interest in the associate at its acquisition-date fair value and recognizes the resulting gain or loss in profit or loss
- The acquisition of a controlling interest is accounted for by applying the acquisition method

### In the starter kit

In the starter kit, a change from equity method to full consolidation is handled as follows:

- The line “Investments accounted for using equity method” is reversed on the “old method” flow (F02) and “replaced” by the subsidiary’s assets and liabilities being loaded on the new method flow (F03).
- The equity accounts (the proportionate share of them that correspond to the consolidation rate) are reversed on the old method flow and reloaded at 100% on the new method flow; allocation between group and non-controlling interests is made on this flow according to the new interest rate.

Any goodwill existing at opening (and included in the carrying amount of the investment in associate) is not reloaded on the new method flow. Indeed, it is part of the carrying amount of the previously held interest and is, therefore, taken into account to calculate the profit on “disposal”. A new goodwill has to be calculated as part of the acquisition method process and declared<sup>1</sup> by a manual journal entry using the new method flow.

Accumulated other comprehensive income at opening is automatically reclassified to retained earnings on the new method flow, as with incoming entities. Reclassification adjustments displayed in the comprehensive income take into account the old method flow because change in consolidation method is handled as if the associate was disposed of.

Manual journal entries are necessary to:

- Recognize a gain or loss on “disposal” of the previously held interest (which means, in particular, remeasure previously held shares in associates to fair value)
- Remeasure net identifiable assets of the held company to fair value (as if it was an incoming entity)
- Declare goodwill.

*In the reference dataset (A-GROUP-IFRSYTD-EUR), entity S1202, accounted for using equity method in 2018.12, becomes a subsidiary in 2019.12.*

## JOINT VENTURE BECOMES A SUBSIDIARY

Because the new IFRS 11 (mandatory from 2013) requires joint ventures to be accounted for using equity method (proportionate consolidation is no more permitted), this operation is similarly treated as previously explained for an associate becoming a subsidiary.

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<sup>1</sup> Goodwill is not automatically calculated in this case. Indeed, its amount depends on the remeasurement of the previously held interest in the associate. This revaluation is to be entered by a manual journal entry. If this journal entry is not booked, the automatic goodwill will be incorrect. Therefore, it seems advisable not to automate the calculation of goodwill in order to avoid triggering a wrong automatic journal entry.

# Measurement period

## PRINCIPLES

The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination. The measurement period ends as soon as the acquirer receives the information needed to achieve the measurements. It cannot exceed one year from the acquisition date.

The adjustments to provisional amounts should be recognized as if the accounting for the business combination had been completed at the acquisition date. It means that any decrease or increase in the provisional amount of an asset or a liability is recognized by means of a corresponding change in goodwill. Comparative information for prior periods should be revised as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.

## IN THE STARTER KIT

Adjustments made to provisional amounts during the measurement period are booked on the reclassification flow (F50). Restatements of prior periods are facilitated by the usage of variants (see IAS 8).

# IFRS 5 | Non-Current Assets Held for Sale and Discontinued Operations<sup>1</sup>

## Definitions

IFRS 5 specifies the accounting for assets and disposal groups to be classified as held for sale and the presentation and disclosures of discontinued operations.

A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include current and non-current assets.

A non-current asset (or disposal group) should be classified as held for sale if the following conditions are met:

- The asset (or disposal group) must be available for immediate sale in its present condition.
- The sale must be highly probable. IFRS 5 lists several conditions that must be satisfied for the sale to qualify as highly probable (from which the deadline: the sale should be completed within one year from the date of classification)

Examples of individual non-current assets held for sale: headquarters building, investment property ...

Examples of disposal groups: a plant, a store ...

A non-current asset (or disposal group) should be classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose a separate major segment as defined above, or
- is a subsidiary acquired exclusively with a view to resale. (IFRS 5.32)

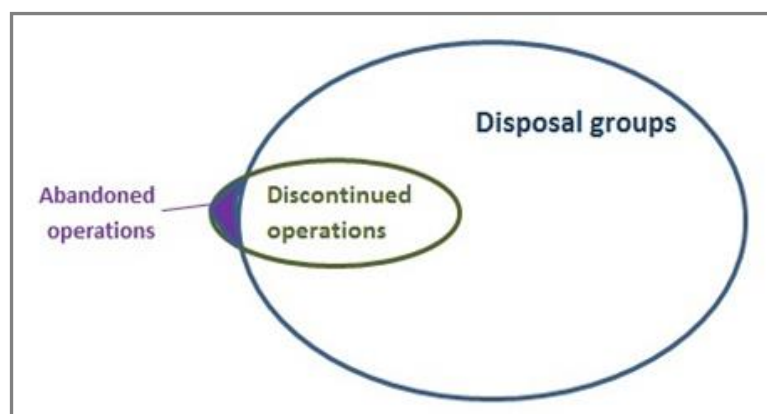
Judgment is necessary in determining whether a ceased activity is major enough to qualify as discontinued. In practice, the disclosure of discontinued operations usually focuses on very significant operations (such as the disposal of a reportable segment as defined in IFRS 8).

What differences between a disposal group and a discontinued operation?

Not all disposal groups are discontinued operations: a disposal group qualifies as a discontinued operation only if it represents a major line of business or geographical area of operations.

Conversely, not all discontinued operations (but most of them actually) are disposal groups: an operation that is to be abandoned or scrapped may meet the criteria of a discontinued operation but cannot be classified as held for sale (because it will not be sold).

It implies that it will be presented as discontinued operations only when it is actually abandoned (and not from the date the decision of abandon is taken) as explained in the example hereafter.



<sup>1</sup> Issued: March 2004. Last amendments: May 2017.

#### Guidance on implementing IFRS 5 – example 9

“In October 2005 an entity decides to abandon all of its cotton mills, which constitute a major line of business. All work stops at the cotton mills during the year ended 31 December 2006. In the financial statements for the year ended 31 December 2005, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 2006, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by IFRS 5 (33)&(34).”

## Individual assets

### CLASSIFICATION AND MEASUREMENT PRINCIPLES IN IFRS 5

Non-current assets classified as held for sale or as held for distribution to owners must be presented separately from other assets in the statement of financial position. The Implementation Guidance accompanying IFRS 5 includes an illustration of presentation on the face of the statement of financial position where those assets and liabilities are presented separate from, but within, current assets and liabilities.

Any cumulative income or expense recognized in other comprehensive income relating to a non-current asset classified as held for sale (for example, fair value changes on a financial asset previously classified as available for sale under IAS 39) should be presented separately.

A non-current asset classified as held for sale or distribution must be measured at the lower of its carrying amount and fair value less costs to sell (distribute). It should not be depreciated or amortized any more once classified as held for sale. At each reporting date where a non-current asset continues to be classified as held for sale it should be remeasured at the lower of carrying amount and fair value less costs to sell. Reversals of impairment losses follow the same principles as those prescribed by IAS 36.

### IN PRACTICE

Except for the statement of other comprehensive income, the classification and measurement of individual non-current assets held for sale or for distribution do not raise any particular issue when it comes to producing the consolidated statements as they have already been accounted for properly in local statements.

The identification of other comprehensive income (OCI) items relating to those assets is more difficult. Indeed, unlike P&L items, components of OCI (defined by IAS 1 as income or expenses that are not recognized in P&L) are not booked in dedicated accounts in the general ledger; they are credited directly to equity. Therefore, they have to be identified from all the movements recognized in equity during the period.

### IN THE STARTER KIT

Individual assets held for sale or for distribution are classified into the dedicated accounts A3000 Non-current assets or disposal groups classified as held for sale or A3100 Non-current assets or disposal groups classified as held for distribution to owners in the package (at local level). Transfers from the original accounts are made through flow F50.

These assets are presented separately in the statement of financial position (see appendix 1).

As regards the statement of other comprehensive income, the starter kit includes two dedicated line items:

- OCI on non-current assets and disposal groups classified as held for sale that will not be reclassified to profit & loss
- OCI on non-current assets and disposal groups classified as held for sale that may be reclassified to profit & loss

These line items are not automatically calculated given that no corresponding equity accounts exist. They have to be populated by manual journal entries that transfer the corresponding amounts from the original line items (e.g. gains and losses on revaluation).

### SPECIFIC CASE: INVESTMENT CLASSIFIED AS HELD FOR SALE

In the starter kit, local statements entered in the reporting units' packages are supposed to be IFRS compliant. Then, if a subsidiary meets the criteria to be classified as held for sale, the related investment in the owner company's local statements would be classified in the dedicated account "assets held for sale".

It may raise some issues for the consolidation process purposes as this investment should still be eliminated in the consolidated statements, and yet the account "assets held for sale" is not subject to any analysis (by share or by partner). Therefore, the needed information would not be available.

For that reason, we suggest to adapt the operating process accordingly. Local users are asked to maintain all consolidated investments in the dedicated account A1810 Investments in subsidiaries, joint-ventures and associates, whether directly or by reclassification from the account A3000 on the audit-ID PACK11 (used for adjustments in the package).

## Disposal groups held for sale

### CLASSIFICATION AND MEASUREMENT PRINCIPLES IN IFRS 5

IFRS 5 requirements are basically the same as those listed above for individual assets. However measurement principles are more detailed as a disposal group may include several types of assets and liabilities (all are not within the scope of IFRS 5) and may raise the issue of allocating the impairment loss.

### IN PRACTICE

From a consolidation point of view, a disposal group can be a part of a consolidated entity, a whole consolidated entity or a group of consolidated entities. Where a disposal group is part of a consolidated entity, it does not call for additional comment as it amounts to dealing with individual non-current assets held for sale (see above). Where a disposal group corresponds to a whole consolidated entity or a group of entities, central adjustments are needed as the assets and liabilities of those entities are not handled as held for sale in the local statements.

Central adjustments should consist in:

- reclassifying assets and liabilities to the dedicated lines in the statement of financial position
- applying IFRS 5 measurement principles (the lower of carrying amount and fair value less costs to sell)

Additional issues have to be carefully looked at:

- presentation of cash and cash equivalents included in disposal groups in the statement of cash flows;
- identification of OCI items relating to disposal groups;
- interests in joint-ventures and associates classified as held for sale

### Cash and cash equivalents included in disposal groups

Where a disposal group includes cash and cash equivalents, these amounts are reclassified as assets held for sale or liabilities relating to a disposal group (for bank overdrafts meeting the criteria of cash equivalents) in the statement of financial position. IFRS 5 does not specify the way they should be disclosed in the statement of cash flows. Two options can be considered:

- cash and cash equivalents included in disposal groups are included in the cash position displayed in the statement of cash flows (and are therefore part of the reconciliation items between the statement of financial position and the statement of cash flows)
- they are no more seen as cash items in the statement of cash flows; the reclassification from cash and cash equivalents to assets held for sale would then have to be displayed in the statement of cash flows (to explain the change in cash amounts) even though there is no real cash movement.

In practice, most companies opt for the first solution.

### OCI items relating to disposal groups

Similar questions as those for individual assets arise but one is particularly tricky: should reclassification adjustments generated by the disposal (for example, recycling of the foreign currency translation reserve where the disposal group includes a foreign operation) be presented as OCI items relating to disposal groups or should they be presented as reclassification adjustments on their originated line item (exchange differences on translation in our example)? Choosing the first option would lead to significantly reduce the cases where reclassification adjustments on certain items (especially exchange differences on translation) are disclosed. Indeed, most of outgoing subsidiaries can be regarded as disposal group before the effective disposal (only abandoned operations would not meet the conditions).

Moreover one can argue that after disposal the related items are no more classified as held for sale in the balance sheet (as they do not exist anymore in the balance sheet). Therefore, a literal interpretation of IFRS 5 could lead to use the dedicated line item (OCI related to non-current assets or disposal group classified as held for sale) only for items that are still in the balance sheet at the end of the period. In that case, reclassification adjustments would be disclosed in their originated category.

### Interests in joint-ventures and associates classified as held for sale

IAS 28 *Investments in associates and joint ventures* specifies that once classified as held for sale, associates and joint-ventures should be accounted for in accordance with IFRS 5 (and no more with IAS 28).

In practice, it means that the equity accounting will cease from the date where the conditions for classification as held for sale are met. At this date, the interest in the associate or joint-venture is depreciated if the fair value less costs to sell is lower than its carrying amount (being its value under equity method) and reclassified to the dedicated line item in the statement of financial position (assets held for sale). The share in the profit or loss of the associate or joint-venture is no more recognized in the consolidated statements.

### IN THE STARTER KIT

The current starter kit provides 3 balance sheet accounts for disposal groups classified as held for sale:

- A3000 Non-current assets or disposal groups classified as held for sale
- A3100 Non-current assets or disposal groups classified as held for distribution to owners
- L3000 Liabilities included in disposal groups classified as held for sale

For disposal groups that are part of an entity, the transfer from original accounts to these specific ones is made in the package using transfer flow (F50). When disposal groups correspond to a whole consolidated entity or a group of consolidated entities, transfer is to be made centrally by manual journal entries. These assets and the corresponding liabilities are presented separately in the statement financial position (see appendix 1).

As regards the statement of other comprehensive income, manual journal entries are necessary as explained above for individual assets held for sale.

Depending on the option chosen for the presentation of cash flows, manual journal entries may be necessary to adjust the amount of cash displayed in the statement of cash flows.

Regarding associates and joint ventures classified as held for sale, the equity accounting must stop from the date they qualify as held for sale. This cannot be done automatically in Financial Consolidation. Therefore, we rather suggest adapting the operating process accordingly.

The package data entered for these reporting units should correspond to their positions at the date they are classified as held for sale. Given that the classification of joint ventures or associates as held for sale is not so frequent, it seems possible to ask the consolidation manager to use the package that fits the best the situation at this date. For example, if an associate qualifies as held for sale from 31 March 2016, the package filled in for the consolidation at 31 March 2016 will also be used for subsequent consolidations (e.g. 30 June 2016) until complete disposal.

## Discontinued operations

As regards discontinued operations, IFRS 5 only includes specific requirements for presentation (and not measurement principles). However, a discontinued operation may also qualify as a disposal group held for sale and be therefore subject to the related measurement rules.

### PRESENTATION IN THE FINANCIAL STATEMENTS

IFRS 5 requires the presentation of a single amount in the statement of profit or loss comprising the total of:

- (i) the post-tax profit or loss of discontinued operations and
- (ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation.

Further information is required (e.g. analysis into pre-tax and tax effect of both amounts above, allocation between owners and non-controlling interests ...) but can be disclosed in the notes. The same is true for cash flows.

Comparative information is restated so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

Discontinued operations can qualify as disposal groups or not depending whether they are discontinued because they are to be sold or because they are abandoned. Discontinued operations that qualify as disposal groups are subject to the classification and measurement requirements explained above for their assets and liabilities in addition to the disclosures requirements regarding profit or loss.

As regards abandoned operations, the classification in the balance sheet does not raise any issue as the assets and liabilities have already been disposed of where the operation is classified as discontinued (because an operation to be abandoned cannot be treated as a discontinued operation before it has actually been abandoned).

## IN PRACTICE

From a consolidation point of view, a discontinued operation can be a part of a consolidated entity, a whole consolidated entity or a group of consolidated entities. Where it is part of a consolidated entity, it does not call for additional comment as it is supposed to be accounted for properly in the local statements.

Where a discontinued operation corresponds to a whole consolidated entity or a group of entities, central adjustments are needed because the operation is not classified as discontinued at local level.

Profit or loss attributable to discontinued operations include the profit or loss of the discontinued operations themselves as well as gains and losses recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation. It may cause difficulties because part of the information is not in the discontinued operation's ledgers but in the owner company's one.

Other practical issues have to be pointed out regarding especially the following topics:

- Elimination of intra group transactions
- Restatement of comparative information

## Intercompany transactions

The elimination of intra group transactions in the statement of profit or loss raises the issue of allocating fairly the profit or loss between continuing and discontinued operations.

Let's take an example. Parent company P owns companies A and B. Company A sells merchandises to B for CU 100 with a cost of CU 70. B sells these products outside the group for CU 150. Company B is classified as a discontinued operation.

The question is the following: what profit should be reported in the income statement for continuing operations on one hand and for discontinued operations on the other hand?

If intra group are eliminated in full, group P will report no sales (sales of company A are eliminated in full as they correspond to intra group transactions, sales of company B are reclassified as part of the profit of discontinued operations). Net profit of 80 should be split between continuing and discontinued operations. IFRS 5 is silent on how to allocate this profit. IFRS 5 only states that the information disclosed should enable users of the financial statements to evaluate the financial effects of discontinued operations. It may imply that the accounting can be different depending on the situation post-disposal.

In our example, if transactions between A and B are expected to cease after B's disposal, it would seem appropriate to allocate the entire net profit of 80 to discontinued operations as it will no more be recorded after disposal. Conversely, if transactions between A and B are expected to continue after B's disposal, it may seem more appropriate to display a net profit of 30 for continuing operations (because this profit will remain after the disposal) and a net profit of 50 for discontinued operations (that will no more benefit to the group after disposal). But is it possible to show a profit of 30 for continuing operations without reporting any sales (that would have been eliminated as intra group)?

This question has already been raised by many as one of the most complex implementing issue surrounding the accounting for discontinued operations. However, the IFRS Interpretation Committee concluded in its September 2015 meeting that sufficient guidance exists and that neither an interpretation nor an amendment is necessary. It noted that the consolidation requirements in IFRS 10 should apply. It means that intragroup sales should be eliminated against the internal selling party and intragroup purchases should be eliminated against the internal purchasing party. In our example, group P will report no sales, cost of sales of 70 resulting in a net loss of 70 for continuing activities whereas discontinued activities will show a net profit of 150. The IASB staff admits that this presentation does not result in the most useful information for assessing the financial effects of discontinued operations. It suggests that additional information be disclosed in the notes.



## Comparative information

Comparative information needs to be restated so that the discontinued operations presented in the P&L include all operations that have been discontinued by the end of the reporting period for the latest period presented. This contrasts with IFRS 5 requirements for disposal groups held for sale that do not require any restatement of comparatives.

It means that where a discontinued operation also qualifies as a disposal group, comparative information does not follow the same principles for the statement of financial position than for the statement of comprehensive income (for the P&L section).

For example, if an operation qualifies as discontinued during 2016, it will be classified as discontinued in the statement of comprehensive income for the whole of 2016 and also in the 2015 comparatives. If it also qualifies as a disposal group, its assets and liabilities will be presented as such at the end of 2016 but not in 2015 comparatives.

### Specific case: subsidiary acquired exclusively with a view to resale

A subsidiary acquired exclusively with a view to resale qualifies as a discontinued operation if it meets the criteria of classification as held for sale (available for immediate sale in its present condition and sale highly probable). It means that it does not require being significant enough to qualify as discontinued.

At the acquisition date the group can choose one of the two following methods: full consolidation approach or short-cut method (as described in IFRS 5 implementation guidance). The full consolidation approach does not call for any comment as it amounts to apply successively IFRS 3 (as with any business combination) and IFRS 5 requirements.

The short-cut method is a simplified approach permitted by IFRS 5. It only requires measuring the fair value less costs to sell of the newly acquired subsidiary (as a single investment asset would be). This amount is added to the fair value of the subsidiary's liabilities to ascertain the value of the subsidiary's assets. In the statement of financial position, its assets are put together on the single line "assets held for sale" and its liabilities accordingly in "liabilities related to a disposal group".

At the acquisition date, the statement of financial position is the same whatever the method. It will not be the case later because the subsidiary's profits generated post-acquisition will not be recognized when using the short-cut method. In that method, the only impact on income statement could be an impairment loss if the subsidiary's fair value decreases. However, it should be reminded that such a subsidiary is supposed to be sold quickly (within one year). Thus the choice of an accounting method will generally have a very limited impact.

## IN THE STARTER KIT

Where discontinued operations are to be sold, the same principles as with disposal groups apply regarding the balance sheet items.

In the income statement, the account P7000 Profit (loss) from discontinued operations is available in the starter kit. It can be used directly in the package where a discontinued operation is part of an entity or centrally by manual journal entries where it corresponds to a whole entity or a group of entities.

The restatement of comparative periods follows the same procedure as a change in accounting policies (see IAS 8).

As regards a subsidiary acquired exclusively with a view to resale, two practical solutions can be considered if the short cut method is applied<sup>1</sup>:

- The subsidiary could be excluded from the consolidation scope. In that case, a manual journal entry is booked to eliminate the amount of the investment in the parent's ledgers and to replace it by the corresponding amounts of assets held for sale and liabilities included in disposal groups (see above).
- The subsidiary could be included in the scope. Manual journal entries to reclassify assets and liabilities are similar to those needed for other disposal groups qualifying as discontinued. However, the income statement should not be taken into account in that particular case meaning that it should be either not entered at local level (package data remains data at acquisition date) or reversed by manual journal entries.

Since the version 10, Financial Consolidation is delivered with a feature enabling the selection of reporting units in rules according to a new scope property – that can be customized – independent from their behavior as regards consolidation. This new feature can be leveraged to facilitate the processing of disposal groups and discontinued operations.

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<sup>1</sup> The use of full consolidation approach does not call for additional comment as it follows a standard procedure.

# IFRS 8 | Operating Segments<sup>1</sup>

## Requirements

IFRS 8 sets out requirements for disclosure of information about an entity's operating segments.

### SEGMENT REPORTING

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) ;
- whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance;
- for which discrete financial information is available.

An entity should disclose the following information:

- General information (for example, the way the operating segments were determined, the products and services provided by the segments and so on)
- Information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement; the amount of each segment item reported should be the measure reported to the chief operating decision maker (internal reporting)
- Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segments liabilities and other material segment items to corresponding entity amounts

### ENTITY-WIDE DISCLOSURES

If it is not provided as part of the reportable segment information, an entity should report as a minimum:

- Revenues from external customers for each product and service, or each group of similar products and services
- Geographical information :
  - Revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues
  - Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets.
- Information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity should disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues.

In contrast to segment information listed above, these amounts should be based on the financial information used to produce the entity's financial statements (and not on internal reporting measures).

## In the starter kit

IFRS 8's core principle is that segment reporting included in the financial statements should reflect internal reporting practices. For example, IFRS 8 does not define segment profit or loss but requires an explanation of how it is measured (meaning: in the internal reporting).

Considering this, segment reporting cannot be configured in the starter kit, except for the minimum requirements (see entity-wide disclosures above). Reportable segment information should be part of a specific category scenario dedicated to internal reporting and using native features of Financial consolidation.

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<sup>1</sup> Issued: November 2006. Last amendments: December 2013.

As regards entity-wide disclosures, the starter kit provides the following analysis:

- Revenues by activity
- Revenues by geographical area
- Non-current assets by geographical area

If necessary, information about major customers can be handled in the starter kit using the dimension “partner”, which can be used for both internal and external transactions.

For more information about segment reporting in the starter kit, please refer to the configuration design documentation.

# IFRS 9 | Financial Instruments<sup>1</sup>

## Foreword

The final version of IFRS 9, issued in 2014, replaces IAS 39 with an effective date being 1 January 2018. However, a company may choose to apply the IAS 39 hedge accounting requirements instead of those in IFRS 9 (see IAS 39 for more detail).

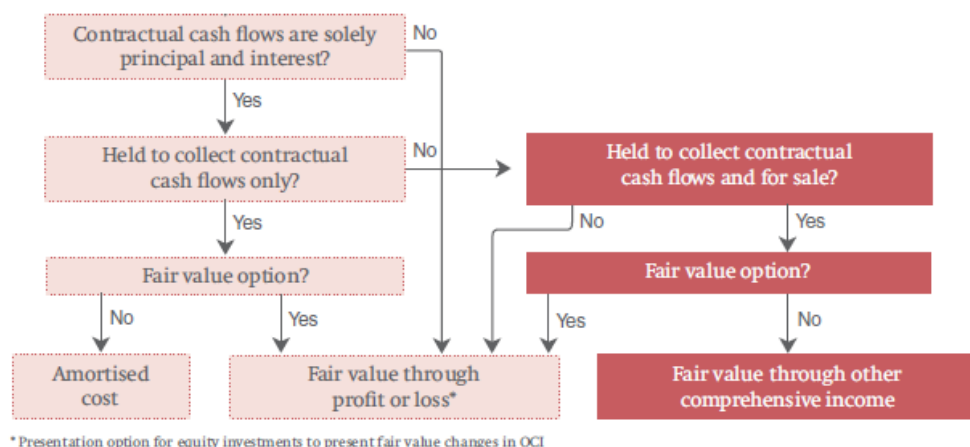
As a reminder, requirements for financial instruments are included in IAS 32, IAS 39, IFRS 7 and IFRS 9. IAS 32 establishes principles for presenting financial instruments. The principles for recognizing and measuring financial assets and financial liabilities are set out in IFRS 9/ IAS 39 whereas IFRS 7 lists all disclosures to be published on financial instruments.

Though simpler than IAS 39, IFRS 9 remains a long and complex standard. In this document, we limit our analysis to the requirements that may have an impact on the consolidation software.

## Categories and measurement of financial assets

### 4 CATEGORIES OF FINANCIAL ASSETS

IFRS 9 applies one classification approach for all types of financial assets based on two criteria: the contractual cash flow characteristics of the financial asset and the company's business model for managing the financial assets. This process can be illustrated as follows<sup>2</sup>:



Firstly, it should be determined whether contractual cash flows are solely payments of principal and interest (SPPI). The assessment of whether a financial asset meets the SPPI criterion may be difficult. We will not get into this question in depth, as it has not any impact on our configuration.

Financial assets that do not meet the SPPI criteria should be measured at fair value through profit or loss (FVTPL).

For financial assets that meet the SPPI criteria, the second question relates to the entity's business model. Three business models have been identified depending on their objectives:

- The objective is to hold assets in order to collect contractual cash flows only  
Such assets are measured at amortized cost. For most non-financial corporates, trade receivables will fall into this category.
- The objective is achieved by both collecting contractual cash flows and selling assets  
Compared to the previous business model, this one will typically involve greater frequency and volume of sales of financial assets. This business model is usual for banks and insurance companies but may also exist in non-financial

<sup>1</sup> Issued November 2009. Last amendments : January 2016

<sup>2</sup> From : 'IFRS 9 Financial Instruments, Project Summary', July 2014, IFRS Foundation

corporates. For example, a company may manage the overall return of long-term debt instruments by collecting the contractual cash flows and selling assets to reinvest and get a higher return in order to fund capital expenditure in the short to medium term.

Such financial assets are measured at fair value through other comprehensive income (FVTOCI).

- Any other objective

Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. FVTPL is the residual category under IFRS 9.

In addition to these rules, two options are available:

- FVTOCI for investments in equity instruments that are not held for trading (without any further recycling through profit or loss);
- FVTPL for any financial asset if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch).

In both cases, the option is irrevocable and should be made at initial recognition.

The mapping between the accounts in the starter kit and the four categories of IFRS 9 can be presented as follows:

Account	FVTPL	FVTOCI (recyclable)	FVTOCI (non recycl.)	Amortized cost
A1610 Loans and cash advances, Non-current, Gross	√	√		√
A1620 Receivables on disposal of property, plant and equipment, NC, Gross	√	√		√
A1621 Receivables on disposal of intangible assets, NC, Gross	√	√		√
A1622 Receivables on disposal of investments in subsidiaries, NC, Gross	√	√		√
A1623 Receivables on disposal of investments in other entities, NC, Gross	√	√		√
A1624 Receivables on disposal of investments in other assets, NC, Gross	√	√		√
A1630 Other receivables, Non-current, Gross	√	√		√
A1810 Investments in subsidiaries, JV and associates	√		√	
A1820 Available-for-sale financial assets, Non-current		(1)		
A1830 Derivatives, Non-current	√			
A1840 Other financial assets at FVTPL, Non-current	√			
A1850 Other financial assets at FVTOCI, Non-current		√	√	
A1860 Other financial assets at amortized cost, Non-current				√
A2210 Trade receivables, Gross	√	√		√
A2220 Receivables on disposal of property, plant and equipment, Current, Gross	√	√		√
A2221 Receivables on disposal of intangible assets, Current, Gross	√	√		√
A2222 Receivables on disposal of investments in subsidiaries, Current, Gross	√	√		√
A2223 Receivables on disposal of investments in other entities, Current, Gross	√	√		√
A2224 Receivables on disposal of investments in other assets, Current, Gross	√	√		√
A2230 Dividends receivable	√			√
A2240 Other receivables, Current, Gross	√	√		√
A2250 Accrued interests on receivables	√	√		√
A2410 Available-for-sale financial assets, Current		(1)		
A2420 Derivatives, Current	√			
A2430 Other financial assets at FVTPL, Current	√			
A2440 Loans and cash advances, Current, Gross	√	√		√
A2450 Other financial assets at FVTOCI, Current		√	√	
A2460 Other financial assets at amortized cost, Current				√
A2620 Short-term deposits and other cash equivalents	√	√		√

(1) The available-for-sale category was used under IAS 39. It remains in the starter kit to maintain historical data.

## RECLASSIFICATION

Reclassification from one category to another is possible for financial assets when and only when an entity changes its business model for managing such assets. Such changes are expected to be very infrequent.

Practical consequences are listed below:

		RECLASSIFICATION TO		
		Amortized cost	FVTOCI	FVTPL
RECLASSIFICATION FROM	AC		Difference between amortized cost and fair value to be recognized in OCI	Difference between amortized cost and fair value to be recognized in P&L
	FVTOCI	Accumulated OCI removed from equity (it is not a reclassification adjustment) and adjusted against the fair value of asset → asset measured as if amortized cost had always been used		Accumulated OCI recycled to P&L (reclassification adjustment) / no impact on the carrying amount of the asset
	FVTPL	Fair value at reclassification date becomes the new carrying amount	No impact at reclassification date	

In the starter kit, a dedicated reclassification flow (F50) is available for all balance sheet accounts.

However, the reclassification principles as described in IFRS 9 may raise some issues: when the reclassification implies a change in the carrying amount of the asset, the corresponding increase or decrease has a different counterpart depending on the originated and destination categories. Furthermore, when it affects accumulated OCI in equity, it may – or not – be a reclassification adjustment in the statement of comprehensive income.

The accounting schemes to be used are as follows:

		RECLASSIFICATION TO		
		Amortized cost	FVTOCI	FVTPL
RECLASSIFICATION FROM	AC		F50 balanced ( -assets at AC + assets at FVTOCI = OCI in equity)	F50 balanced: transfer from AC to FVTPL (at amortized cost). Adjustment to fair value using flow F55 (asset side) and dedicated account P2320 for P&L impact
	FVTOCI	F50 balanced ( -assets at FVTOCI+ assets at AC = -OCI in equity)		F50 balanced: transfer from FVTOCI to FVTPL; Accumulated OCI in equity transferred to P&L using F30 (reclassification adjustment) and dedicated account P2330 in P&L.
	FVTPL	F50 balanced: transfer from FVTPL to AC for the same carrying amount	F50 balanced: transfer from FVTPL to FVTOCI for the same carrying amount	

## MEASUREMENT PRINCIPLES

In IFRS 9, financial assets are classified on the basis of their measurement model (as explained above). Financial assets measured at amortized cost and financial assets at FVTPL do not call for further comment.

As regards financial assets measured at FVTOCI, the accounting principles are different depending whether these assets are debt instruments or equity instruments.

For debt instruments, the amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if the financial asset had been measured at amortized cost. It means that interest revenue, foreign exchange gains and losses as well as impairment losses (or reversals) are recognized in profit or loss. Other changes in the carrying amount of the financial asset are recognized through OCI. When the financial asset is derecognized, the cumulative gain or loss recognized in OCI is reclassified to profit or loss.

For equity instruments, measurement at FVTOCI is an option as they are normally measured at FVTPL. In that case, all fair value changes are recognized through OCI without any further recycling to profit or loss. Cumulative gain or loss may be transferred within equity.

## IMPAIRMENT

The impairment model introduced by IFRS 9 applies to financial assets measured at cost or at FVTOCI, excluding equity investments. It is based on expected losses as opposed to incurred losses. It implies that, once a financial asset is originated or purchased, a loss allowance corresponding to 12-month expected credit losses should be immediately recognized. This is the first stage of impairment recognition. If the credit risk increases, additional impairment losses should be recognized.

For financial assets measured at FVTOCI, the loss allowance should be recognized through OCI and should not reduce the carrying amount of the financial asset in the statement of financial position. It means that the impairment loss is recognized in profit or loss by “transferring” part of the changes in fair value from OCI.

Example (based on example 13, IFRS 9, Illustrative examples)

An entity purchases a debt instrument with a fair value of CU1,000 on 15 December 20X0 and measures the debt instrument at FVTOCI. The instrument has an interest rate of 5% over the contractual term of 10 years and has a 5% effective interest rate. At initial recognition the entity determines that the asset is not purchased or originated credit-impaired.

On 31 December 20X0 (the reporting date), the fair value of the debt instrument has decreased to CU950 as a result of changes in market interest rates. The entity determines that there has not been a significant increase in credit risk since initial recognition and that expected credit losses should be measured at an amount equal to 12-month expected credit losses, which amounts to CU30. For simplicity, journal entries for the receipt of interest revenue are not provided.

	Debit	Credit
Impairment loss (P&L)	30	
Other comprehensive income	20	
Financial asset measured at FVTOCI		50

The cumulative loss in other comprehensive income at the reporting date was CU20. That amount consists of the total fair value change of CU50 (ie CU1,000 – CU950) offset by the change in the accumulated impairment amount representing 12-month expected credit losses that was recognized (CU30).

On 1 January 20X1, the entity decides to sell the debt instrument for CU950, which is its fair value at that date. The journal entries to derecognize the financial asset and recycle accumulated OCI to P&L are as follows:

	Debit	Credit
Cash	950	
Financial asset measured at FVTOCI		950
Loss (P&L)	20	
Other comprehensive income		20

## IN THE STARTER KIT

The accounting schemes embedded in the starter kit comply with IFRS 9 measurement principles.

For financial instruments measured at fair value, fair value changes are recorded using dedicated flow F55 with a counterpart being:

- accounts P1660 *Operating fair value gains or losses* or P2130 *Financial fair value gains and losses* when the impact is recognized in P&L
- account E1530 *Recyclable fair value reserve* or E1440 *Non-recyclable fair value reserve* when impact is recognized in other comprehensive income (depending whether accumulated OCI will be further recycled to P&L).

Reclassification adjustments from recyclable fair value reserve are booked using flow F30.

As regards impairment, loss allowances may be recognized directly against the gross value account or in dedicated accounts (e.g. A2212 *Trade receivables, Allowance for bad and doubtful debts*), depending on the financial asset's nature and the accounting policy applied. Use of dedicated flows (F25 for impairment, F35 for reversals) is necessary to ensure that the statement of cash flows line items are correctly calculated.

### Example (continued)

In the previous example from IFRS 9, the accounting entries are different in the starter kit depending on whether an allowance account is used or not:

#### 1<sup>st</sup> solution - no dedicated allowance account

Account	Flow	Debit	Credit
--- At closing date ---			
P2215 – Impairment losses on other financial assets	Y99	30	
A1850 – Other financial asset at FVTOCI, NC	F25		30
E1530 – Recyclable fair value reserve	F55	20	
A1850 – Other financial asset at FVOCI, NC	F55		20
--- When the financial asset is disposed of ---			
A2610 – Cash on hand	F15	950	
A1850 – Other financial asset at FVTOCI, NC	F30		950
P1614 – Gains or losses on sale of other assets	Y99	20	
E1530 – Recyclable fair value reserve	F30		20

#### 2<sup>d</sup> solution - with an allowance account

Account	Flow	Debit	Credit
--- At closing date ---			
P2215 – Impairment losses on other financial assets	Y99	30	
A1642 – Receivables, NC, Allowance	F25		30
E1530 – Recyclable fair value reserve	F55	20	
A1630 – Other receivables, NC, Gross	F55		20
--- When the financial asset is disposed of ---			
A2610 – Cash on hand	F15	950	
A1642 – Receivables, NC, Allowance	F50	30	
A1630 – Other receivables, NC, Gross	F50		30
A1630 – Other receivables, NC, Gross	F15		950
P1614 – Gains or losses on sale of other assets	Y99	20	
E1530 – Recyclable fair value reserve	F30		20

## Classification and measurement of financial liabilities

Most financial liabilities are measured at amortized cost using the effective interest method. Some financial liabilities (such as liabilities held for trading like short sales) are measured at fair value with value changes recognized in profit or loss.

A financial liability may be designated, at initial recognition, as measured at FVTPL if some conditions are met. However, IFRS 9 now specifically addresses issues related to own credit risk. The fair value of an entity's own debt is affected by changes in the entity's credit risk (own credit). When an entity's credit quality declines, the fair value of its liabilities fall (because they are discounted using a higher interest rate), and if those liabilities are measured at fair value a gain was recognized in profit or loss under IAS 39, which is counterintuitive. To avoid this, IFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in OCI, without any further recycling in profit or loss.

In the starter kit, all financial liabilities accounts can be measured either at amortized cost or at fair value. Fair value changes are booked using dedicated flow F55. When applicable, the amount of change due to own credit risk is recognized through OCI using account E1450 *Financial liabilities at FVTPL credit risk reserve, before tax*.



# Hedge accounting

## PRINCIPLES

IFRS 9 classifies hedging relationships in 3 types:

- fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment (e.g. interest rate swap hedging a fixed rate borrowing)
- cash flow hedge: a hedge of the exposure to variability in cash flows of a recognized asset or liability or a highly probable forecast transaction (e.g. interest rate swap hedging a variable rate borrowing)
- hedge of a net investment in a foreign entity as defined in IAS 21.

In a fair value hedge, the change in fair values of both the hedging instrument and the hedged item are recognized in profit or loss when they occur.

In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income whereas the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated gains or losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the acquired asset or liability. This accounting entry, sometimes referred to as a 'basis adjustment' does not affect OCI of the period (this is not a reclassification adjustment).

For any other cash flow hedge, the amount accumulated in equity is subsequently reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flow affects profit or loss.

A hedge of a net investment in a foreign operation is similarly treated as a cash flow hedge.

## IN THE STARTER KIT

Fair value hedge does not call for particular comment as changes in fair value of both hedging and hedged item are recognized in P&L.

As regards cash flow hedges, accounting schemes are different depending on the nature of the hedged item. The amounts accumulated in the cash flow hedge reserve can be subsequently reclassified to profit or loss or removed from equity and included in the initial cost of the hedged asset or liability. In the first case, the recycling through P&L is part of OCI (reclassification adjustment) whereas, in the second case, the amount transferred should be presented as a movement in equity.

As a consequence, the starter kit provides two different accounts of cash flow reserve: one (E1430 *Non-recyclable hedging reserve, before tax*) for amounts that will not be recycled to profit or loss and the other (E1520 *Recyclable hedging reserve, before tax*) for those that will be.

In both cases, fair value flow (F55) is used to record the gain or loss on the hedging instrument (effective portion). Flow F30 is used to transfer the gain or loss previously recorded in equity to P&L in the same period in which the hedged item affects P&L (reclassification adjustment). Flow F50 is used to remove any gain or loss that was previously recorded from hedging reserves and to include it in the initial cost of the acquired asset or liability (basis adjustment).

# IFRS 10 | Consolidated Financial Statements<sup>1</sup>

## Foreword

Principles regarding the consolidation process are set out in IFRS 10 that specifically addresses the accounting for investments in subsidiaries. Investments in associates and joint-arrangements are respectively covered by IAS 28 and IFRS 11.

Even though it is part of the consolidation process, translating the financial statements of foreign subsidiaries is not addressed by IFRS 10 but by IAS 21 (and IAS 29 for entities operating in hyperinflationary economies). As regards the first consolidation of a subsidiary, IFRS 10 refers to IFRS 3 Business Combinations.

## Consolidation process

### DEFINING THE SCOPE OF CONSOLIDATION

#### Principles

Accounting for investments in consolidated financial statements is different depending on the control or influence the investor has over the investee:

- Subsidiaries (entities that are controlled by the parent according to criteria defined in IFRS 10) are consolidated using the full consolidation method
- Joint-ventures (see IFRS 11 for the classification principles of joint arrangements) and associates are accounted for using the equity method as defined in IAS 28

#### In the starter kit

In the starter kit, the scope of consolidation can be automatically calculated, based on:

- information on investments (in number of shares) collected in the holdings' packages

	F00 Opening	F99 Closing	F20 Increase/ Purchase	F30 Decrease/ Disposal		
XA1810 Investments in subsidiaries, JV and associates - Number of stocks						
Investments in subsidiaries, JV and associates						
S001 Subsidiary - United Kingdom 1	5 000	+	5 000	+	-	
S002 Subsidiary - France 1	2 000	+	2 000	+	-	
S004 Subsidiary - United States 2		+	24 000	+	24 000	-
S005 Subsidiary - Germany 1	52 000	+	52 000	+	-	
S006 Subsidiary - Japan 1	360 000	+	0	+	-	-360 000

<sup>1</sup> Issued May 2011. Last amendments: December 2016

- the parameters selected in the scope options

Manual adjustments are then possible to change, for example, the consolidation method where the usual thresholds do not apply (e.g. a subsidiary controlled with less than 50% of the voting power).

For more information, please refer to the operating guide.

## ADJUSTMENTS TO GROUP ACCOUNTING PRINCIPLES

### Principles

Adjustments to local data may be necessary to in order to:

- apply uniform accounting policies – as required by IFRS 10. B87 – when a consolidated entity uses either non IFRS-compliant accounting methods or IFRS-compliant options that are different from those chosen by the group (e.g. revaluation method for PPE vs. cost model)
- take into account the difference between the value of an asset or a liability in local accounts and its value in the consolidated statements due to fair value adjustments made at the acquisition date. For example, if an item of PPE has been revalued at the acquisition date, the annual depreciation expense should be adjusted in the consolidated accounts to be based on this value. In the same way, impairment losses on goodwill have to be recognized when preparing consolidated statements.

### In the starter kit

In the starter kit, adjustments are recorded by manual journal entries:

- adjustments to group accounting principles are booked using the audit-ID PACK11 (local adjustments to group accounting policies) if entered in the package at local level or ADJ91 (other central manual adjustments) if entered by the consolidation department
- adjustments due to fair value remeasurements at the acquisition date are booked centrally using the audit-ID FVA11 (fair value for incoming entities)
- impairment of goodwill is declared by a single-entry manual journal entry using the audit-ID GW01 (please refer to the operating guide for more detail)

## ELIMINATION OF INTERNAL TRANSACTIONS

### Principles

As regards operations between a parent and its subsidiaries or between subsidiaries, IFRS 10 sets out the following principles:

- intragroup balances and transactions, including income, expenses and cash flows, are eliminated in full
- gains and losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full
- IAS 12 Income Taxes applies to temporary differences that arise from the elimination of gains and losses resulting from intragroup transactions.

### In the starter kit

Automatic rules have been configured in the starter kit as regards the elimination of:

- Internal provisions / impairments
- Internal gains and losses on transfer of fixed assets
- Reciprocal accounts (sales / cost of sales, receivables / payables, and so on)
- Internal dividends

These processes are explained in detail in the starter kit documentation (design description and operating guide).

## CONSOLIDATION OF INVESTMENTS

### Principles

Subsidiaries are consolidated using the full consolidation method, which means:

- line by line adding together like items of assets, liabilities, equity, income, expenses and cash flows of the parent and with those of its subsidiaries;
- offsetting the carrying amount of the parent's investment<sup>1</sup> in each subsidiary and the parent's portion of equity of each subsidiary (IFRS 10.B86)

In the statement of financial position, non-controlling interests are presented within equity, separately from the equity of the owners of the parent (IFRS 10.22)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance (IFRS 10.B94).

### In the starter kit

The starter kit handles the different methods of consolidation required by IFRS (full consolidation, proportionate consolidation<sup>2</sup> and the equity method).

Elimination of investments and calculation of non-controlling interests are automatically handled by consolidation rules. Dedicated audit-IDs are used to ensure a comprehensive audit trail.

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<sup>1</sup> Where investments in subsidiaries are carried at fair value in the individual statements as permitted by IAS 27, the change in fair value recognized for the period is automatically eliminated in the starter kit.

<sup>2</sup> Proportionate consolidation is no more permitted by IFRS since the adoption of IFRS 11. However this method can still be used for internal reporting purposes (see [IFRS 11](#)).

## Example

Parent company S000 holds 80% of entity S001. The contribution of S001 to equity is analyzed as follows:

	F99 Closing	
PACK01 Package data	11 151 944	← Amount entered in the package
INV10 Elimination of investments - Auto	-800 000	← Automatic entry: elimination of investment in S001 (as it is in S000's ledger)
NCI-PACK01 Package data - NCI calc.	-2 230 389	
<b>Equity attributable to owners of parent</b>	<b>8 121 555</b>	
NCI-PACK01 Package data - NCI calc.	2 230 389	← Automatic entry: calculation of non-controlling interests: $20\% \times 11,151,944 = 2,230,389$
<b>Non-controlling interests</b>	<b>2 230 389</b>	

As shown above, the elimination of parents' investments in consolidated entities is automatically booked using the dedicated audit-ID INV10.

As regards booking of non-controlling interests, different audit-IDs are generated depending on the original audit-ID (on which the amount at 100% has been accounted for). In the example above, non-controlling interests are stored on audit-ID "NCI-PACK01" because they correspond to the NCI's share in the "local" subsidiary's equity (as entered in the package on audit-ID PACK01).

The correlation map between original audit-IDs and the audit-IDs used for NCI calculation is the following:

Original audit-ID		Audit-ID used for NCI calcul.
PACK01	Package data	NCI-PACK01
PACK11	Local adjustment to Group accounting policies	NCI-PACK10
PACK91	Package data - Central correction	NCI-PACK90
PACKIFRS11	Local adjustments to IFRS	NCI-PKIFRS10
PACKIFRS12	Local adjustments to IFRS - Package data (Y+1)	NCI-PKIFRS12
PACKIFRS91	Package data - IFRS central correction	NCI-PKIFRS90
ADJ90	Other adjustment - Central - Auto	NCI-ADJ90
ADJ91	Other adjustment - Central - Man.	NCI-ADJ90
ADJIFRS91	IFRS adjustments - Central - Man.	NCI-AJIFRS90
CTA01	Currency translation adjustments - Equity - Man.	NCI-CTA10
CTA10	Currency translation adjustments - Equity - Auto	NCI-CTA10
DIS10	Elimination of internal gains and losses on disposal of assets - Auto.	NCI-DIS10
DIS11	Elimination of internal gains and losses on disposal of assets - Man.	NCI-DIS10
DIV10	Elimination of internal dividends - Auto	NCI-DIV10
DIV11	Elimination of internal dividends - Man.	NCI-DIV10
DIV20	Currency translation adjustments on dividends - Auto.	NCI-DIV20
DIV21	Currency translation adjustments on dividends - Man.	NCI-DIV20
FVA10	Fair value for incoming entities (central) - Auto	NCI-FVA00
FVA11	Fair value for incoming entities (central) - Man.	NCI-FVA00
FVA20	Adjustment on incoming entities (central) - Auto.	NCI-FVA00
INV31	Adjustments on gains and losses on disposal of a subsidiary, JV or associate (Local currency)	NCI-INV30
INV32	Adjustments on gains and losses on disposal of a subsidiary, JV or associate (Consolidation currency)	NCI-INV30
INV40	Elim. impact of equity accounting in local statements - Auto.	NCI-INV40
INV41	Elim. impact of equity accounting in local statements - Man.	NCI-INV40
PRO10	Elimination of internal impairment on investments - Auto.	NCI-PRO10
PRO11	Elimination of internal impairment on investments - Man.	NCI-PRO10
PRO20	Elimination of internal provisions - Auto.	NCI-PRO20
PRO21	Elimination of internal provisions - Man.	NCI-PRO20

For more information about consolidation rules, please refer to the starter kit configuration design documentation.

## Changes in consolidation scope

Handling changes in the consolidation scope is a key part of the consolidation process. The key principle in IFRS is that only a change in control (but every change in control) is a significant event.

Change in control means:

- Obtaining control over an entity (and by analogy taking a significant influence or a joint control in an entity) : see IFRS 3

- Losing control of an entity (see the following section)

Once control is achieved, any subsequent transactions that do not result in a loss of control are accounted for as equity transactions (see the following section).

## LOSS OF CONTROL

### Principles

The loss of control of a subsidiary results in recognizing a gain or loss in the statement of profit or loss. When the parent company loses control but retains an interest, it triggers recognition of gain or loss on the entire interest:

- a gain or loss is recognized on the portion that has been disposed of;
- a further gain is recognized on the interest retained, being the difference between the fair value of the interest and its book value.

Both are recognized in the statement of profit or loss.

For example, if a parent company sells 80% of its former wholly-owned subsidiary S, retaining a 20% interest, gain or loss will be calculated as if the 100% interest has been sold:

Proceeds from sale of 80% of S
+
Fair value of the 20% interest retained in S
-
Carrying amount of S's net assets
=
Gain or loss on the loss of control of S

When a parent loses control of a subsidiary, the parent should account for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent has directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary (IFRS 10. B99).

If the residual interest in the former subsidiary gives a significant influence or a joint control, the acquisition method is applied as if a new associate or joint-venture has been acquired.

### In the starter kit

In Financial Consolidation, loss of control can result:

- in an entity leaving the scope (when the parent company does not keep any interest or when the remaining interest is under the consolidation threshold)
- in a change in consolidation method (subsidiary becoming an associate or a joint venture accounted for using equity method)

### Outgoing entities

In the consolidation scope, outgoing entities are identified as “outgoing at the opening” or “outgoing during the period” depending on whether data are entered or not for the period. Data entered, if any, must correspond to the period lasting from the beginning of the year to the date when control is lost so that income and expenses of the subsidiary are included in the financial statements until the date when the parent ceases to control the subsidiary (as required by IFRS 10).

All of the outgoing company's data at the date of the disposal (which means opening data plus movements of the period if data have been entered) are automatically reversed on a dedicated flow (F98). As regards accumulated other comprehensive income that has to be recycled (fair value reserve, hedging reserve and foreign currency translation reserve), this flow is regarded as a reclassification adjustment in the statement of comprehensive income.

After gain or loss on disposal has been calculated, a manual journal entry has to be booked to adjust the gain or loss recognized in the parent's separate financial statements.

*In the reference dataset, entity S1301 is outgoing in 2019.12.*

For more information and examples, please refer to the starter kit operating guide.

### *Changes in the consolidation method*

In Financial consolidation, changes in consolidation method are handled as follows:

- Opening balances are reversed on the "old method" flow (F02)
- Opening balances are reloaded on the "new method" flow (F03) with the new consolidation method applying

As regards a change from full consolidation to equity method, it means that:

- the subsidiary's assets and liabilities are reversed and "replaced" by the line "Investments accounted for using equity method"
- the equity accounts are reversed on the old method flow and reloaded on the new method flow taking into account the consolidation rate of the associate or joint venture; allocation between group and indirect non-controlling interests (if any) is made on this flow according to the new interest rate

Any goodwill existing at opening is not reloaded on the new method flow. Indeed, it is part of the assets sold and is, therefore, taken into account to calculate the profit on "disposal". A new goodwill has to be calculated as part of the acquisition method process of the associate or joint venture and declared by a manual journal entry using the new method flow.

Accumulated other comprehensive income at opening is automatically reclassified to retained earnings on the new method flow like incoming entities. Reclassification adjustments displayed in the comprehensive income take into account the old method flow because change in consolidation method is handled as if the subsidiary was disposed of.

Manual journal entries are necessary to:

- adjust the gain or loss recognized in the parent's separate financial statements on the interest sold
- recognize a gain or loss on the remeasurement of the interest retained at fair value
- remeasure net identifiable assets of the new associate/joint venture to fair value (as if it was an incoming entity)
- declare goodwill.

*In the reference dataset, change from full consolidation to equity is illustrated by entity S1302 in 2019.12.*

## **EQUITY TRANSACTIONS**

### **Accounting principles**

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (IFRS 10.23). In such circumstances, the carrying amounts of the controlling and non-controlling interests should be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent (IFRS 10. B96).

IFRS 10 does not give detailed guidance on how to measure the amount to be allocated to the parent and non-controlling interest to reflect a change in their relative interests in the subsidiary. Main issues regard goodwill and accumulated other comprehensive income.

#### *Goodwill*

In its Basis for conclusions (BCZ168), IFRS 10 states that no change in the carrying amounts of the subsidiary's assets (including goodwill) should be recognized as a result of such transactions. But it does not specify whether the allocation of goodwill between parent and non-controlling interests should be modified.

In the Basis for conclusions of IFRS 3 (BC218), the Board explains that the adjustment to the carrying amount of non-controlling interests, that will be recognized when the acquirer purchases shares held by non-controlling interests, will be affected by the choice of measurement basis for non-controlling interests at acquisition date (fair value or proportionate share of net assets). It means that, when parent acquires non-controlling interests that have been initially measured at their fair value, goodwill is included in the carrying amount of non-controlling interests that is transferred to group equity.

With partial disposals, where the parent disposes part of its interest to non-controlling interest without losing control, the question remains whether part of the parent's goodwill should be transferred to NCI or not. Interpretations published by professional bodies differ. Some consider that goodwill is part of the transfer whereas others think that no goodwill has to be allocated to NCI (which means that principles would apply differently whether the equity transaction is an increase or a decrease of the parent's ownership interest).

#### *Accumulated other comprehensive income*

The question is: should accumulated other comprehensive income (for example: exchange differences on foreign subsidiaries) be part of the transfer between group and non-controlling interest in case of an equity transaction?

As regards partial disposals, IAS 21 requires that "the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation" (§ 48.C).

On the other hand, IFRS are silent when it comes to an increase in parent's ownership interest. SFAS 160 *Non-Controlling Interests in Consolidated Financial Statements*, which is supposed to be the US GAAP equivalent of IFRS 10, is clearer: "A change in a parent's ownership interest might occur in a subsidiary that has accumulated other comprehensive income. If that is the case, the carrying amount of accumulated other comprehensive income shall be adjusted to reflect the change in the ownership interest in the subsidiary through a corresponding charge or credit to equity attributable to the parent (§ 34)".

As a consequence, we assume that accumulated other comprehensive income has to be re-allocated between group and NCI according to their new respective shares, regardless of whether there is an increase or a decrease in the parent's ownership interest.

#### **In the starter kit**

Configuration principles are the following:

- The amount to be transferred from group's equity to NCI (or conversely) is calculated on the basis of the subsidiary's opening equity after deduction of dividends paid on the period (but relating to prior benefits).
- Accumulated other comprehensive income (revaluation surplus, fair value reserve, hedging reserve and foreign currency translation reserve) is part of the transfer.
- This transfer is recognized on flow F92 'Increase / decrease in interest rate'.
- If need be, the amount of goodwill to be transferred from NCI to group (or conversely depending on the interpretation of IFRS 10), is declared by manual journal entry using flow F92.

*In the reference dataset, equity transactions are illustrated by entities S1401 (increase) and S1402 (decrease) in 2019.12.*



# IFRS 11 | Joint Arrangements<sup>1</sup>

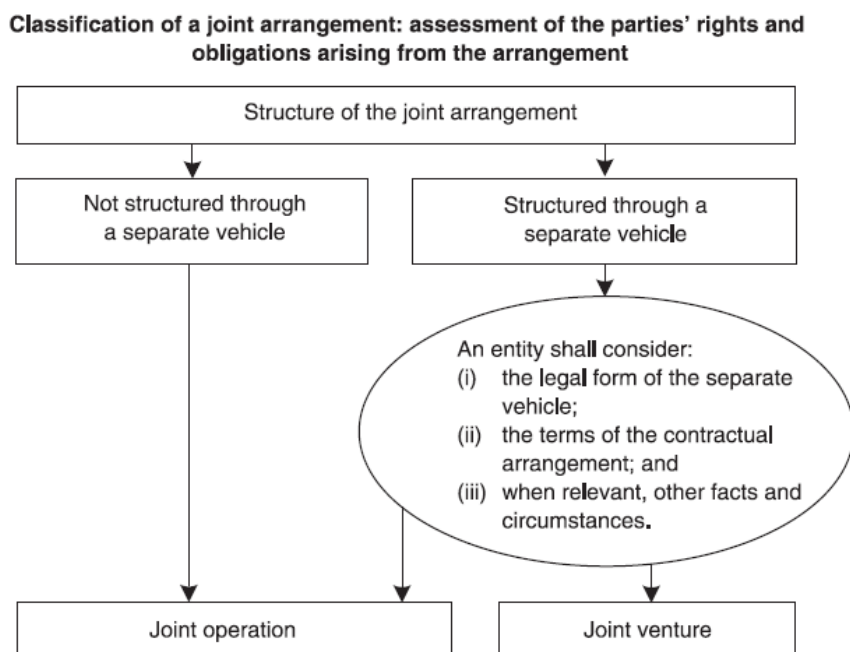
## Requirements

### DEFINITION AND CLASSIFICATION

A joint arrangement is defined as an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. IFRS 11 distinguishes between parties that have joint control of an arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement. IFRS 11 provides multiple examples to understand whether joint control exists and, in particular, to distinguish between joint control and collective control.

According to IFRS 11, a joint arrangement is either a joint operation or a joint venture. IFRS 11 provides the following chart (Application Guidance, B21) to illustrate the classification process:

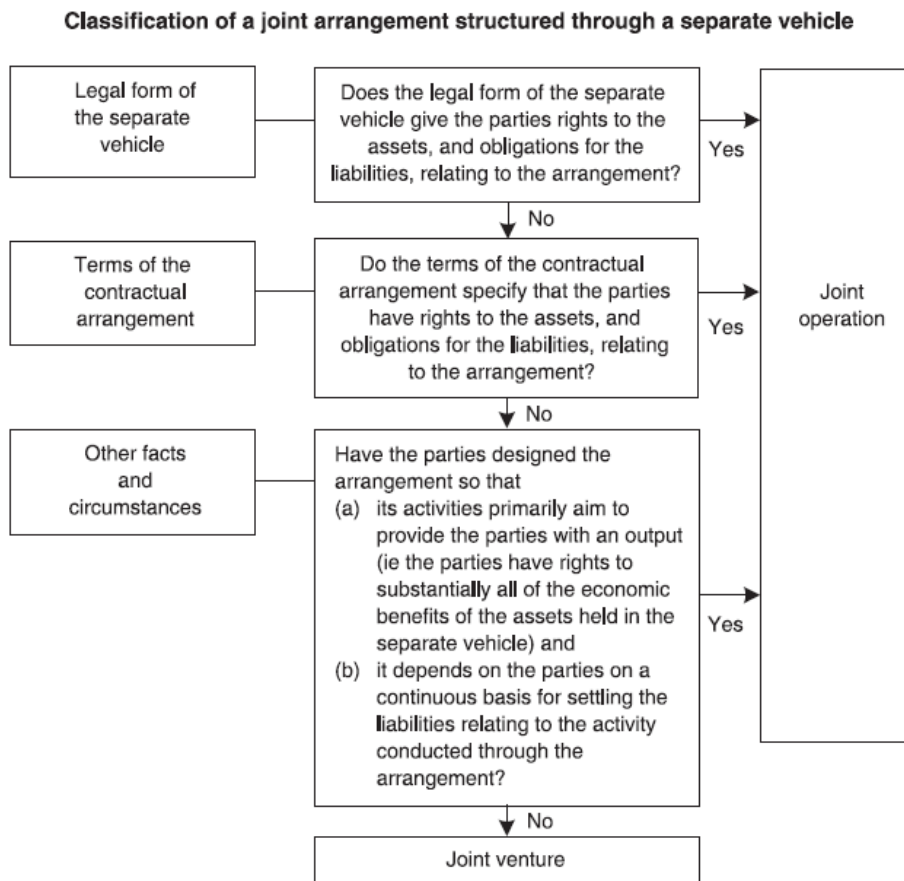


A separate vehicle is defined as “a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality” (IFRS 11. Appendix A).

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<sup>1</sup> Issued May 2011. Last amendments: December 2017

If a joint arrangement is structured through a separate vehicle, further analysis is required as illustrated in the following chart (IFRS 11, Application guidance, B33):



The following example given in IFRS 11 (B32, example 5) helps understand the process described above:

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and circumstances are relevant:

- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their

share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

## ACCOUNTING PRINCIPLES

### Joint operations

#### *Principles*

A joint operator shall recognize in relation to its interest in a joint operation (IFRS11.20):

- Its assets including its share of any assets held jointly,
- Its liabilities including its share of any liabilities incurred jointly,
- Its revenue from the sale of its share of the output arising from the joint operation,
- Its share of the revenue from the sale of the output by the joint operation,
- Its expenses, including its share of any expenses incurred jointly.

These principles apply to consolidated statements as well as to separate statements. It means that these accounting entries should be recognized in the joint operator's individual statements provided that IFRS are applied in local statements.

#### *Transactions between a joint operator and a joint operation*

Any gains or losses resulting from the transaction should only be recognized to the extent of the other parties' interest in the joint operation.

### Joint ventures

#### *Principles*

In its consolidated statements, a joint venturer should recognize its interest in a joint venture as an investment and should account for that investment using the equity method in accordance with IAS 28. The accounting option that allowed the choice between proportionate consolidation and equity method under IAS 31<sup>1</sup> has been removed.

In its separate statements, the investment should be accounted for in accordance with IAS 27. Three options are available: at cost, in accordance with IFRS 9 *Financial Instruments* (fair value) or using the equity method.

#### *Transactions between a joint venturer and a joint venture*

IAS 28 states that any gains and losses resulting from transactions between a joint venturer (including its consolidated subsidiaries) and its joint venture are recognized only to the extent of unrelated investors' interests in the joint venture.

#### *Changes in ownership*

IFRS 11 does not address the question of any further changes in ownership. Some principles are given in IAS 28 (see this standard).

## In the starter kit

It should be reminded that Financial Consolidation natively offers three methods of consolidation: full consolidation (for subsidiaries, see IFRS 10), proportionate consolidation and equity method.

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<sup>1</sup> IAS 31, the previous accounting standard for joint ventures, was replaced by IFRS 11 in 2011 (effective date: 2013).

## **ACCOUNTING FOR JOINT OPERATIONS**

The starter kit rests on the assumption that local statements (meaning here data entered in the packages) are compliant with IFRS. Therefore, as accounting for joint operations is to be done in local statements according to IFRS 11, no specific configuration is required in the starter kit.

## **ACCOUNTING FOR JOINT VENTURES**

Please refer to IAS 28 for information about how the starter kit manages the equity method that should be applied to joint ventures.

## **PROPORTIONATE CONSOLIDATION IN THE STARTER KIT**

When IFRS 11 was issued that required the use of equity method for all joint ventures, the question naturally arose of maintaining in the starter kit specific features previously developed for proportionate consolidation. We strongly believe it is worth maintaining these features for the following reasons.

Firstly, proportionate consolidation can still be used by companies' upper management for internal reporting purposes and, therefore, for segment reporting presentation as allowed by IFRS8 (with appropriate reconciliation). Feedback received by the IASB through comment letters to exposure draft ED9 (which gives rise to IFRS 11) shows that many users of proportionate consolidation are deeply attached to this method. They believe that it better reflects performance (including margins), extent of operations and risk exposures of joint arrangements. Even if the starter kit is only dedicated to the statutory consolidation and does not provide internal reporting features, it is often used by customers as a starting point to configure additional reportings (budget, forecast ...).

Secondly, proportionate consolidation, as a consolidation method in Financial Consolidation, can be used for joint operation accounting where joint operators do not apply IFRS in the separate statements. However, as mentioned above, the starter kit rests on the assumption that data entered in the packages are compliant with IFRS, meaning that either local statements comply with IFRS or are restated before being entered in Financial Consolidation. This principle should preclude the possibility of using proportionate consolidation for joint operation accounting as the joint operator's separate statements (as restated to comply with IFRS) should already include its share in the joint operation. Still, we believe it could be worth making an exception for this particular case because it is precisely a very specific case. Where restatements to IFRS usually mean changes in the classification or the measurement of assets, liabilities, revenues or expenses, accounting for joint operations is more similar to consolidation process as it consists in incorporating another entity's assets, liabilities, revenues and expenses. Consequently some customers may save time during the financial consolidation process by using these features to account for their joint operations.

Lastly, it should be noticed that maintaining specific features for proportionate consolidation within the starter kit is quite transparent to the business end-users who do not use them.

# IFRS 15 | Revenue from Contracts with Customers<sup>1</sup>

## Requirements

Revenue is defined in IFRS 15 (appendix A) as an “income arising in the course of an entity's ordinary activities”.

The primary issues in accounting for revenue is determining when to recognize revenue and how much revenue to recognize. IFRS 15 establishes a comprehensive framework, based on a five-step approach:



IFRS 15 does not provide any accounting scheme regarding revenue recognition. IAS 1 requires revenue to be presented in the statement of profit or loss. In most situations, the top line “revenue” in this statement includes revenue from sale of goods or services but usually excludes interest or dividends. However, it depends on the nature of the entity's operations. For example, interest income is part of revenue in banking.

## In the starter kit

The starter kit provides the following accounts to account for revenue:

- P1110 Revenue (“top line” of the statement of profit or loss)
- P2120 Interest income and P2140 Dividends, both presented under Finance income in the statement of profit or loss

The classification of these items in the statement of profit or loss can easily be modified in the starter kit if need be.

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<sup>1</sup> Issued May 2014 ; Last amendments : January 2016

# IFRS 16 | Leases<sup>1</sup>

In January 2016, the IASB issued IFRS 16 Leases, replacing the previous IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 (earlier application is permitted).

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases, in the financial statements of both lessees and lessors. "A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration" (IFRS 16.9).

## Leases in the financial statements of lessees

### REQUIREMENTS

At the commencement date, the lessee should recognize a right-of-use asset and a lease liability for each lease contract or lease component of a contract.

However, this requirement is not mandatory for short-term leases and for leases for which the underlying asset is of low value. A short-term lease is a lease which, at the commencement date, has a lease term of 12 months or less and which does not include a purchase option. As regards assets of low value, IFRS 17 does not give precise guidance. The examples of low-value underlying assets are tablet and personal computers, small items of office furniture and telephones (IFRS 17.B8).

#### Right-of-use asset

At the commencement date, the right-of-use asset is measured at cost. This includes:

- the amount of the initial measurement of the lease liability (see below),
- any lease payments made at or before the commencement date, less any incentives received,
- any initial direct costs incurred by the lessee,
- an estimate of costs to be incurred by the lessee in dismantling/removing/restoring the underlying asset.

The right-of-use asset is subsequently measured using either cost model (as described in IAS 16), revaluation model (if it belongs to a class of PPE to which the revaluation model under IAS 16 is applied) or the IAS 40 fair value model (if the asset meets the definition of an investment property). The right-of-use asset should be depreciated (as described in IAS 16) from the commencement date to either the end of the useful life or the end of the lease term depending whether the measurement of the right-of-use asset has taken into account the purchase option or not.

#### Lease liability

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. This measurement implies defining the lease term, the lease payments and the discount rate to be used. The lease term is defined in IFRS 16 as the "non-cancellable period of a lease together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option". The assessment of the lease term is a critical estimate and a key input to the amount of the lease liability.

Lease payments include:

- fixed payments (less any lease incentives receivable);
- variable lease payments depending on an index or a rate initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The discount rate to be used is the implicit interest rate of the lease if it can be easily determined; otherwise, the lessee's incremental borrowing rate will be used.

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<sup>1</sup> Issued January 2016

Subsequently, the lease liability is measured by:

- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made,
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

#### Presentation in the financial statements

Right-of use assets should be presented separately from other assets either in the statement of financial position or in the notes. Same apply for lease liabilities. In the statement of profit or loss, interest expense on the lease liability should be presented separately from the depreciation charge for the right-of-use asset. Interest expense is a component of finance costs. In the statement of cash flows, cash payments for the principal portion of the lease liability should be presented within financing activities. Cash payments for the interest portion of the lease liability should be presented applying the requirements in IAS 7 for interests paid (meaning in operating or financing activities depending on the option chosen). Short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability should be presented within operating activities.

#### IN THE STARTER KIT

In the starter kit, right-of-use assets are included in the same accounts as owned assets. Corresponding lease liabilities are booked using dedicated accounts: L1520 Leases, non-current and L2520 Leases, Current. As regards depreciation and impairment, accounting schemes are the same as those for owned assets. Finance expenses and repayment of borrowings are booked in the same way as those arising on bank borrowings. In the statement of cash flows, the “acquisition” of assets by means of a lease should be excluded as it is a non-cash transaction (IAS 7.44). This is automatically done in the starter kit, based on the information entered on the dedicated accounts ‘Leases’ in liabilities.

## Leases in the financial statements of lessors

#### REQUIREMENTS

A lessor should classify each of its lease as either an operating lease or a finance lease. A finance lease is a lease that “transfers substantially all the risks and rewards incidental to ownership of an underlying asset” (IFRS 17.62).

##### Accounting principles for finance leases

In the lessor’s balance sheet, an asset leased to another entity under a finance lease is presented as a receivable, initially at an amount equal to the net investment in the lease. Over the lease term, rentals are apportioned between a repayment of principal (deducted from the receivable) and finance income (recognized in P&L).

##### Accounting principles for operating leases

Assets leased to other entities under an operating lease are presented in the balance sheet according to their nature (usually PPE or investment property). Depreciation and impairment principles set out in IAS 16 and IAS 36 apply to these assets. Lease income from operating leases is recognized as income on a straight-line basis over the lease term unless another systematic basis is more relevant.

#### IN THE STARTER KIT

The starter kit does not include specific items for lessors, as lessors are often financial companies. However, generic accounts may be used or customized. For example, assets held and leased to another company should be presented as receivables. In the starter kit, the account “A2240 – other receivables” can be used. Otherwise, a new dedicated account can be created (for example: A2241 – receivables under finance leases”).

## EXAMPLE<sup>1</sup>

### Characteristics of the lease

- Asset leased: a floor of a building
- Lease term: 10 years with an option to extend for 5 years
- Payments: CU 50,000 per year during the initial term and CU 55,000 per year during the optional period, all payable at the beginning of each year
- Initial direct costs: CU 15,000 paid to a former tenant and CU 5,000 paid as a commission to the real estate agent
- Incentive: lessor agrees to reimburse to lessee the real estate commission as an incentive for entering into the lease

### Measurement options

- At the commencement date, lessee concludes that it is not reasonably certain to exercise the option to extend the lease and, therefore, determines that the lease term is 10 years
- The interest rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5%, which reflects the fixed rate at which lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term. The discount rate used for measuring lease liability is therefore 5%

### Accounting entries at commencement date

Right-of-use asset	405 391 (a) + (b)
Lease liability	355 391 (a)
Cash (lease payment for the 1st year)	50 000 (b)
(a): present value of the remaining 9 payments of CU 50,000 discounted at 5% per annum	
Right-of-use asset	20 000
Cash (initial direct costs)	20 000
Cash (lease incentive received)	5 000
Right-of-use asset	5 000

### Subsequent measurement

The right-of-use asset and the lease liability from year 1 to year 10 are as follows.

Year	Lease liability				Right-of-use asset		
	Beginning balance	Lease payment	Interest expense	Ending balance	Beginning balance	Depreciation charge	Ending balance
1	355 391		17 770	373 161	420 391	(42 039)	378 352
2	373 161	(50 000)	16 158	339 319	378 352	(42 039)	336 313
3	339 319	(50 000)	14 466	303 785	336 313	(42 039)	294 274
4	303 785	(50 000)	12 689	266 474	294 274	(42 039)	252 235
5	266 474	(50 000)	10 824	227 298	252 235	(42 039)	210 196
6	227 298	(50 000)	8 865	186 162	210 196	(42 039)	168 156
7	186 162	(50 000)	6 808	142 971	168 156	(42 039)	126 117
8	142 971	(50 000)	4 649	97 619	126 117	(42 039)	84 078
9	97 619	(50 000)	2 381	50 000	84 078	(42 039)	42 039
10	50 000	(50 000)	0	0	42 039	(42 039)	0

<sup>1</sup> Based on the example 13 of IFRS 16 Illustrative Examples



# Conclusion

This document is part of starter kits for SAP® financial close products provided to customers in order to help them reduce implementation times and support legal compliance.

Challenging economic conditions demand that enterprises find new ways to gain a competitive edge. One sure-fire way to achieve this advantage is to optimize your organization's business performance. SAP® enterprise performance management solutions and governance, risk, and compliance software are designed to help you meet this objective by addressing compliance and business risks while closing the gap between strategy and execution.

SAP solutions can help you gain broader insight and align your strategy with day-to-day business activities while optimizing the decision making process and improving risk management – regardless of your underlying transactional systems. Enterprise performance management solutions can help you model and optimize processes, strategize and prioritize goals, plan and execute those strategies, and monitor and analyze your results. Applications designed to address governance, risk, and compliance can help you develop appropriate strategies and policies, identify and respond to challenges, and monitor and remediate any identified risk.

These SAP applications can deliver tremendous value to organizations seeking to optimize their business efficiencies and improve performance. Yet deploying these applications so that they deliver maximum value requires careful planning and skill. Not every organization has the expertise and resources needed to conduct an effective application deployment. In fact, some CFOs and financial managers may experience a few avoidable difficulties while configuring and deploying their software.

For more information on SAP enterprise performance management please visit [www.sap.com/epm](http://www.sap.com/epm).

## APPENDIX 1 – STATEMENT OF FINANCIAL POSITION

Property, plant and equipment
Investment property
Goodwill
Intangible assets
Investment accounted for using equity method
Biological assets
Non-current receivables
Deferred tax assets
Other non-current financial assets
Other non-current assets
Non-current assets
Inventories
Trade and other receivables
Current tax assets
Current biological assets
Other current financial assets
Other current assets
Cash and cash equivalents
Current assets other than NC assets held for sale
Non-current assets or disposal groups classified as held for sale or as held for distributions to owners
Current assets
Total assets

Issued capital
Share premium
Treasury shares
Other reserves
Retained earnings
Equity attributable to owners of parent
Non-controlling interests
Total equity
Non-current provisions for employee benefits
Other long-term provisions
Non-current payables
Deferred tax liabilities
Other non-current financial liabilities
Other non-current liabilities
Non-current liabilities
Current provisions for employee benefits
Other short-term provisions
Trade and other current payables
Current tax liabilities
Other current financial liabilities
Other current liabilities
Current liabilities other than liabilities included in disposal groups
Liabilities included in disposal groups classified as held for sale
Current liabilities
Total liabilities
Total equity and liabilities

## APPENDIX 2 – STATEMENT OF PROFIT OR LOSS

Revenue
Cost of sales
Gross profit
Other income
Distribution costs
Administrative expense
Other expenses
Other gains (losses)
Operating profit
Finance income
Finance costs
Financial result
Share of profit (loss) of associates and JV accounted for using equity method
Profit (loss) before tax
Tax
Profit (loss) from continuing operations
Profit (loss) from discontinued operations
Net income (loss)
Profit (loss), attributable to owners of parent
Profit (loss), attributable to non-controlling interests

## APPENDIX 3 – STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue
Cost of sales
Gross profit
Other income
Distribution costs
Administrative expense
Other expenses
Other gains (losses)
Operating profit
Finance income
Finance costs
Financial result
Share of profit (loss) of associates and JV accounted for using equity method
Profit (loss) before tax
Tax
Profit (loss) from continuing operations
Profit (loss) from discontinued operations
Net income (loss)
Profit (loss), attributable to owners of parent
Profit (loss), attributable to non-controlling interests
Other comprehensive income, net of tax, gains (losses) on revaluation
Other comprehensive income, net of tax, remeasurements of defined benefit plans
Other comprehensive income, net of tax, non-recyclable, cash-flow hedges
Other comprehensive income, net of tax, equity instruments at FVTOCI
Other comprehensive income, net of tax, own credit risk impact on liabilities at FVTPL
Share of OCI of associates and JV accounted for using equity method that will not be reclassified to P&L
OCI on non-current assets and disposal groups classified as held for sale that will not be reclassified to P&L
Total other comprehensive income that will not be reclassified to profit or loss
Other comprehensive income, net of tax, exchange differences on translation
Other comprehensive income, net of tax, financial assets at FVTOCI
Other comprehensive income, net of tax, cash flow hedges
Share of OCI of associates and JV accounted for using equity method that may be reclassified to P&L
OCI on non-current assets and disposal groups classified as held for sale that may be reclassified to P&L
Total other comprehensive income that may be reclassified subsequently to profit or loss
Other comprehensive income, net of tax
Comprehensive income
Comprehensive income, attributable to owners of parent
Comprehensive income, attributable to non-controlling interests

## APPENDIX 4 – STATEMENT OF OTHER COMPREHENSIVE INCOME

Profit (loss) for the period
Gains (losses) on revaluation, before tax
Income tax relating to gains (losses) on revaluation
Other comprehensive income, net of tax, gains (losses) on revaluation
Remeasurements of defined benefit plans, before tax
Income tax relating to remeasurements of defined benefit plans
Other comprehensive income, net of tax, remeasurements of defined benefit plans
Non-recyclable gains (losses) on cash flow hedges, before tax
Income tax relating to non-recyclable gains (losses) on cash flow hedges
Other comprehensive income, net of tax, non-recyclable, cash flow hedges
Gains (losses) on remeasuring equity investments at FVTOCI, before tax
Income tax relating to gains (losses) on equity investments at FVTOCI
Other comprehensive income, net of tax, equity investments at FVTOCI
Gains (losses) on financial liabilities at FVTPL attributable to changes in own credit risk, before tax
Income tax relating to gains (losses) on financial liabilities at FVTPL attributable to changes in own credit risk
Other comprehensive income, net of tax, own credit risk impact on liabilities at FVTPL
Share of OCI of associates and JV accounted for using equity method that will not be reclassified to P&L
OCI on non-current assets and disposal groups classified as held for sale that will not be reclassified to P&L
Total other comprehensive income that will not be reclassified to profit or loss, net of tax
Gains (losses) on exchange differences on translation, before tax
Income tax relating to gains (losses) on exchange differences on translation
Reclassification adjustments on exchange differences on translation, before tax
Income tax relating to reclassification adjustments on exchange differences on translation
Other comprehensive income, net of tax, exchange differences on translation
Gains (losses) on remeasuring financial assets at FVTOCI, before tax
Income tax relating to gains (losses) on financial assets at FVTOCI
Reclassification adjustments on financial assets at FVTOCI, before tax
Income tax relating to reclassification adjustments on financial assets at FVTOCI
Other comprehensive income, net of tax, financial assets at FVTOCI
Gains (losses) on cash flow hedges, before tax
Income tax relating to gains (losses) on cash flow hedges
Reclassification adjustments on cash flow hedges, before tax
Income tax relating to reclassification adjustments on cash flow hedges
Other comprehensive income, net of tax, cash flow hedges
Share of OCI of associates and JV accounted for using equity method that may be reclassified to P&L
OCI on non-current assets and disposal groups classified as held for sale that may be reclassified to P&L
Total other comprehensive income that may be reclassified subsequently to profit or loss, net of tax
Other comprehensive income, net of tax
Comprehensive income
Comprehensive income, attributable to owners of parent
Comprehensive income, attributable to non-controlling interests

## APPENDIX 5 – LIST OF EQUITY ACCOUNTS

Equity accounts
E1110 - Issued capital
E1210 - Share premium
E1310 - Treasury shares
E1410 - Revaluation surplus, before tax
E1411 - Income tax on revaluation surplus
E1420 - Remeasurements of defined benefit plans, before tax
E1421 - Income tax on remeasurements of defined benefit plans
E1430 – Non-recyclable hedging reserve, before tax
E1431 – Income tax on non-recyclable hedging reserve
E1440 – Non-recyclable fair value reserve
E1441 – Income tax on non-recyclable fair value reserve
E1450 – Financial liabilities at FVTPL own credit risk reserve, before tax
E1451 – Income tax on financial liabilities at FVTPL, own credit risk reserve
E1510 - Foreign currency translation reserve, before tax
E1511 - Income tax on foreign currency translation reserve
E1520 – Recyclable hedging reserve, before tax
E1521 – Income tax on recyclable hedging reserve
E1530 – Recyclable fair value reserve, before tax
E1531 - Income tax on fair value reserve
E1570 - Equity component of compound financial instruments
E15EM - Share of OCI & other movements – EM (local)
E1610 - Retained earnings
E2010 - Non-controlling interests - Reserves and retained earnings
E2070 - Non-controlling interests - Treasury shares
E2080 - Non-controlling interests - Compound financial instruments
E2110 - Non-controlling interests - Revaluation surplus before tax
E2111 - Non-controlling interests - Income tax on revaluation surplus
E2120 - Non-controlling interests - Remeasurements of defined benefit plans, before tax
E2121 - Non-controlling interests - Income tax on remeasurements of defined benefit plans
E2130 – Non-controlling interests - Non-recyclable hedging reserve, before tax
E2131 – Non-controlling interests - Income tax on non-recyclable hedging reserve
E2140 – Non-controlling interests - Non-recyclable fair value reserve
E2141 – Non-controlling interests - Income tax on non-recyclable fair value reserve
E2150 – Non-controlling interests - Financial liabilities at FVTPL own credit risk reserve, before tax
E2151 – Non-controlling interests - Income tax on financial liabilities at FVTPL, own credit risk reserve
E2210 - Non-controlling interests - Foreign currency translation reserve, before tax
E2211 - Non-controlling interests - Income tax on foreign currency translation reserve
E2220 - Non-controlling interests – Recyclable hedging reserve, before tax
E2221 - Non-controlling interests - Income tax on recyclable hedging reserve
E2230 - Non-controlling interests – Recyclable fair value reserve, before tax
E2231 - Non-controlling interests - Income tax on recyclable fair value reserve

## APPENDIX 6 – STATEMENT OF CASH FLOWS

Profit (loss)
Adjustments for income tax expense
Adjustments for finance costs
Adjustments for decrease (increase) in inventories
Adj. for decrease (increase) in trade receivables
Adj. for decrease (increase) in other operating receivables
Adjustments for increase (decrease) in trade payables
Adj. for increase (decrease) in other operating payables
Adjustments for depreciation and amortization expense
Adj. for impairment loss (reversal) recognized in P&L
Adjustments for provisions
Adjustments for share-based payments
Adjustments for fair value gains (losses)
Adjustments for profits of associates
Other adjustments for non-cash items
Adj. for losses (gains) on disposal of non-current assets
Other adj. for which cash effects are investing or financing cash flows
Adjustments for reconcile profit (loss)
Interests paid
Income taxes (refund) paid
Other inflows (outflows) of cash
Net cash flows from (used in) operating activities
Cash flows from losing control of subsidiaries
Cash flows used in obtaining control of subsidiaries
Other cash receipts from sales of equity or debt inst. of other entities incl. associates
Other cash payments to acquire equity or debt inst. of other entities incl. associates
Other cash receipts from sale of interests in joint ventures
Other cash payments to acquire interests in joint ventures
Proceeds from sale of property, plant and equipment
Purchase of property, plant and equipment
Proceeds from sales of intangible assets
Purchase of intangible assets
Proceeds from sale of other assets
Purchase of other assets
Repayments of advances and loans made to other parties
Advances and loans made to other parties
Cash receipts from future - forward - opt. - swap contracts
Cash payments for future - forward - option - swap contracts
Dividends received
Interests received
Other inflows (outflows) of cash
Net cash flows from (used in) investing activities

Proceeds from issuing shares
Payments to acquire or redeem entity's shares
Proceeds from sale of entity's shares
Proceeds from changes in ownership interests in subsidiaries
Payments from changes in ownership interests in subsidiaries
Proceeds from borrowings
Repayments of borrowings
Payments of finance lease liabilities
Dividends paid
Other inflows (outflows) of cash
Net cash flows from (used in) financing activities
Effect of exchange rate changes on cash and cash equivalents
Net increase (decrease) in cash and cash equivalents
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period



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