Legal Framework

For the General Accounting Plan — Small Companies

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1. FOREWORD

This practical guide was developed as a result of a request from ACIS in collaboration with GTZ - APSP, to publish a booklet along the lines of the existing Legal Framework for Tax series of books, to be made freely available in Portuguese and in English through electronic distribution and download from the ACIS web site (www.acismoz.com).

Under this framework, the Legal Framework Guide to The General Accounting Plan for Small Business was prepared. A major concern of ACIS is to provide companies with practical and user friendly information and describe the rationale behind, principles underlying and practical implementation of the new General Accounting Plan (PGC PE) in Mozambique.

In trying to achieve the goals established for the guide, practical examples were prepared to enable users to gain a reasonable understanding and to enable interpretation of the new accounting basis, concepts and principles.

The topics covered in this handbook are of a complex nature and the guide is concise. The guide should not be understood, in any manner to substitute the legal documents.

2. GUIDE FOR USERS

This handbook is structured in chapters and sections and is designed to be edited in an unbound leaf folder system. This system should allow the substitution of the outdated pages, when necessary, and allow for changes or additions in legislation by the Tax Authorities.

For changes and revisions to the Handbook that may be deemed necessary, the following procedures will be followed:

- Any amendments to this version of the handbook (PGC PE 01) will be requested and approved by the ACIS Management Committee, who shall nominate the party responsible for the change;
- After approval by the ACIS Management Committee the electronic version of the handbook will be updated by publication on the web site and all members will be notified by email about the amendments;
- Each update shall be dated and identified with a specific sequential number;
- The updated handbook will be available on the web site to download and all members will be emailed a copy;
- The original handbook and the amended versions shall be kept electronically and in hard copy, in the ACIS permanent file system.
- The handbook is presented in Portuguese and in English; however the supporting legislation is only available in Portuguese.

The handbook aims to cover the fundamental issues of PGC PE and uses graphic presentations and practical examples to deliver a user friendly guide on all aspects of PGC PE. The handbook is comprehensive however it does not deal with all the legal detail associated with PGC PE and is not intended to be a legal reference.

The supporting legislation is referenced in the text to ensure that the legislation can be consulted to allow a more thorough understanding.

The availability of printed versions is the responsibility of the ACIS members. Members need to ensure that they keep the last version of the document. Changes to the original are the responsibility of ACIS.

3. GLOSSARY

Acronyms:

ACIS – *Associação de Comércio, indústria e de Serviços*

APSP – *Ambiente Propício para o Sector Privado* – An initiative funded by GTZ to promote a sound environment for Private Sector Development

GTZ – *Deutsche Gesellschaft für Technische Zusammenarbeit* – an international cooperation enterprise for sustainable development with worldwide operations. The federal owned Deutsche GTZ GmbH supports the German Government in achieving its development policy objective.

IRPC – *Imposto sobre o Rendimento das Pessoas Colectivas* – Corporate Income Tax

PGC PE –*Plano Geral de Contabilidade Pequenas Empresas (novo)* – General Chart of Accounts for Small Business (The PGC PE, shall enter into force on the year beginning on 1 January 2011)

PGC – *Plano Geral de Contabilidade (antigo)* – General Chart of Accounts (former)

RIRPC – Regulations of the IRPC Code

Concepts:

Accounting period	Time frame covered by the financial statements.
Accounting policies	Principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Agricultural activity	The management by an entity of the biological transformation of biological assets into agricultural produce or into additional biological assets for sale.
Agricultural produce	The harvested product of (or originated by) the entity's biological assets.
Amortisation (and depreciation)	The systematic allocation of the depreciable amount of an asset intangible (and tangible) over its useful life.
Asset	A resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity.
Balance sheet	Financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date (also called the statement of financial position).
Biological asset	A living animal or plant.
Biological transformation	The processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.
Borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.
Capitalisation	Recognising a cost as part of the cost of an asset.
Cash equivalents	Short-term, highly liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash flows	Inflows and outflows of cash and cash equivalents.
Construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
Constructive obligation	An obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published

policies or a sufficient specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent liability

It is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognized because:

   (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

   (ii) the amount of the obligation cannot be measured with sufficient reliability.

Contract

An agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts may take a variety of forms and need not be in writing.

Cost

The amount of cash (or cash equivalents) paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards.

Current asset

An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within one year after the reporting period; or

(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least one year after the reporting period.

Depreciable amount (of a tangible or intangible asset)

The cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation (Amortisation)

The systematic allocation of the depreciable amount of an asset (tangible or intangible) over its useful life.

Economic life

Either:

(a) the period over which an asset is expected to be economically usable by one or more users; or
(b) the number of production (or similar units) expected to be obtained from the asset by one or more users.

Exchange difference The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate The ratio of exchange for two currencies.

Fair value The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value less costs to sell The amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Finance lease A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Financial asset Any asset that is:

(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
  (i) to receive cash or another financial asset from another entity; or
  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
(d) a contract that will or may be settled in the entity's own equity instruments and is:
  (i) a non derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

Foreign currency A currency other than the functional currency of the entity.

Foreign currency transaction A transaction that is denominated in or require settlement in a foreign currency.

Functional currency Currency of the primary economic environment in which the entity operates.

Government It refers to government itself, government agencies and similar bodies whether local, provincial or national.

Government grants Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Group of biological assets An aggregation of similar living animals or plants.

Harvest The detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Impairment loss The amount by which the carrying amount of an asset exceeds its recoverable amount.

Inception of the lease The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

(a) a lease is classified as either an operating or a finance lease; and
(b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

Initial direct costs (of a lease) Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.

Intangible asset An identifiable non monetary asset without physical substance.

Inventories Assets:

(a) held for sale in the ordinary course of business;
(b) in the process of production for such sale; or
(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Lease An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Lease term (or period) The non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will

	exercise the option.
Legal obligation	An obligation that derives from: (a) a contract (through its explicit or implicit terms); (b) legislation; or (c) other operation of law.
Liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
Obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.
Operating lease	A lease other than a finance lease.
Provision	A is a liability of uncertain timing or amount.
Realisable value	The amount of cash (or cash equivalents) that could currently be obtained by selling an asset in an orderly disposal.
Recoverable amount	The higher of an asset's net selling price and its value in use.
Revaluation	Restatement of assets and liabilities.
Revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
Transaction costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

4. INTRODUCTION TO PGC PE

Decree 70/2009 of 22 December enforced the new Accounting System for the Business Sector in Mozambique, briefly referred to SCE.

The SCE based on International Financial Reporting Standards (IFRS) is a set of principles, rules and procedures subject to a conceptual framework for the comparison and understanding of information presented by entities that adopt the standards whether these entities are domestic or foreign.

Accounting as a process of collecting, recording and interpretation of all the transactions undertaken by entities is the basis of information for both management and for all stakeholders.

The accounting standards have clear objective based on the definition of measurement rules (ways of valuing the elements of financial statements) and recognition (determining the elements to be included in the financial statements), contributing to an improvement in quality and level of transparency on business accounting.

For the implementation of the new standards model SCE distinguishes two major groups of companies with different levels of complexity:

- large and medium companies, subject to the implementation of the PGC NIRF; and
- small companies, subject to the implementation of the PGC PE.

This handbook will deal with the accounting standards applicable to small companies, subject to the implementation of the PGC PE, which replaces in full the General Chart of Accounts approved by Decree No. 36/2006 of 25 June.

For technical consistency, the PGC PE is a standard which structure is based on the accounting concepts provided in the PGC NIRF. However, it establishes a set of rules for recognition, measurement and presentation of very easy application and simple understanding.

The PGC PE includes the following instruments:

- Accounting basis, concepts and principles;
- Chart and codes of accounts;
- Illustrative financial statements;
- Criteria for recognition and measurement.

However, if there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC NIRF should be complementary used.

The PGC PE is mandatory for all companies that fall within the scope of implementation of the Chart of Accounts, approved by former Decree No. 36/2006 of 25 July, which are commercial companies of any types as mentioned in the Commercial Code that fall, based on their individual annual financial statements, into one of the following categories:

- Total income and gains under 500 million Meticais;

- Total net assets under 500 million Meticais; or
- Average annual number of employees under 250 employees.

The PGC PE is not applicable to the following entities:

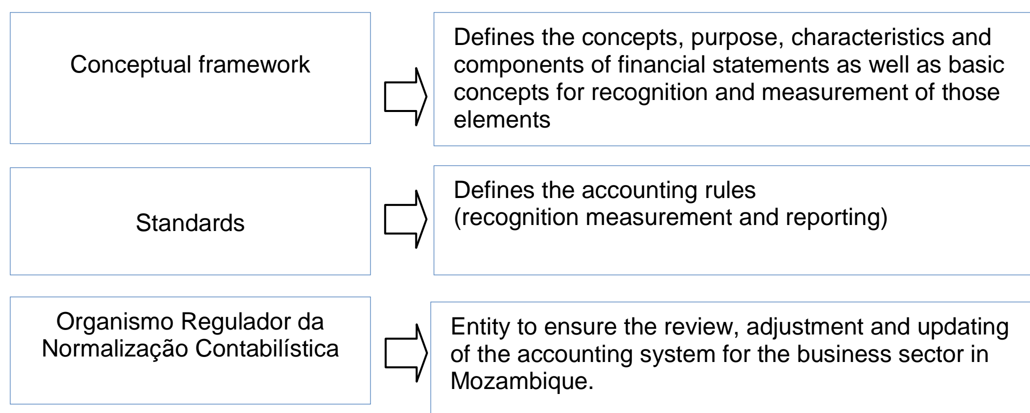
- Public companies or companies with a majority of public equity;
- Companies whose equity shares are quoted on the Stock Exchange of Mozambique or those whose shares are listed on any other stock exchange, provided that they have their headquarters in Mozambique;
- Institutions and companies from the banking and insurance sectors subject to the chart of Accounts for the banking and insurance, in accordance with its legislation.

The PGC PE, shall enter into force on the year beginning on **1 January 2011**.

Where the financial year of a company does not coincide with the calendar year, the entry into force it is apparent from the first day of the month in which starts their financial year.

5. RELEVANT CHANGES BETWEEN PGC (2006 VERSION) AND PGC PE (2009 VERSION)

5.1 What´s new in PGC PE?



5.2 What´s new in the chart of accounts?

The following table provides a comparison between the chart of accounts of the former **PGC** and the current **PGC PE**, where the new accounts are highlighted in bold:

PGC		PGC PE	
Class 1 – Financial assets accounts		**Class 1 – Financial Resources (c)**	
1.1	Cash	1.1	Cash
1.2	Bank	1.2	Bank
1.3	Trade receivable		..................(a)
1.4	State		..................(a)
1.5	Debtors – partners, shareholders or owners		..................(a)
1.6	Other receivables		..................(a)
1.7	Tradeable securities		..................(f)
1.8	Provisions		..................(a)
1.9	Accruals and deferrals		..................(a)

(a) Code changed, kept the content and concept
(c) Name changed, but kept the content and concept
(f) Non existing account

PGC		PGC PE	
Class 2 – Stock accounts		**Class 2 – Inventories and biological assets (c)**	
2.1	Purchases	2.1	Purchases
2.2	Goods	2.2	Goods
2.3	Finished and intermediate goods	2.3	Finished and intermediate goods
2.4	By-products, waste and scrap	2.4	By-products, waste and scrap
2.5	Work in progress	2.5	Work in progress
2.6	Raw materials and other supplies	2.6	Raw materials and other supplies
2.7	……………………	2.7	Biological assets (b)
2.8	Inventory adjustments	2.8	Inventory adjustments
2.9	Provisions to inventories	**2.9**	**Net realisable value adjustments** (c)

Biological assets –The accounting of biological assets covers everything that is born, grows and dies, covering a diverse range of activities as livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, nurseries and aquaculture (including creation of fish). Biological assets are recorded at market value net of selling expenses, instead of using the system for allocating costs of production. As these assets are subject to biological transformation that includes the processes of growth, degeneration, production, and procreation that cause qualitative and quantitative changes in biological asset over time, must be constantly evaluated. Note that there may be negative adjustments due to changes in market prices.

Net realisable value adjustments - It is intended to record the differences in the cost of acquisition or production, deriving from the criteria for measurement of inventories. It is credited by debit of the account *6.4.1 - Adjustments for the period* and it is debited for its cancellation and reversal, by credit of *7.4.1.1 - Reversals for the period* when has expired more than one year from the date of its creation.

PGC		PGC PE	
Class 3 – Fixed Assets		**Class 3 – Capital Investments (c)**	
3.1	Financial assets	**3.1**	**Financial investments** (c)
3.2	Fixed assets	3.2	**Tangible assets** (c)
3.3	Intangible assets	3.3	Intangible assets
3.4	Assets in progress	**3.4**	**Investments in progress** (c)
3.6	……………………	**3.6**	**Investment property** (b)
3.8	Amortisations	**3.8**	**Accumulated depreciation and amortisation** (c)
3.9	Provisions to financial assets	**3.9**	**Financial investments adjustments** (c)

Investment property – is property (building or part of a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. Examples of investment property: Building leased out under an operating lease, vacant building held to be leased out under an operating lease or property that is being constructed or developed for future use as investment property.

Financial investments adjustments - It is intended to record the difference between the cost of investments and the corresponding market price when the latter is lower than the former. It is credited by debit of *6.4.2 - Adjustments for the period* and debited by credit to *7.4.1.2 - Reversals for the period*, when their reduction or cancellation will arise.

(b) New account, new concept
(c) Name changed, but kept the content and concept

PGC		PGC PE	
Class 4 – Creditors Accounts		**Class 4 – Accounts receivable, accounts payable, accruals and deferrals (e)**	
4.1	Suppliers	4.1	**Trade receivable (a)**
4.2	Borrowing	4.2	**Trade payable (a)**
4.3	....	4.3	**Borrowing (a)**
4.4	State	4.4	State
4.5	Creditors – partners, shareholders or owners	4.5	**Other receivable (a)**
4.6	Other payable	4.6	Other payable
4.7	....	4.7	**Accounts receivable adjustments (c)**
4.8	Provisions	4.8	Provisions
4.9	Accruals and deferrals	4.9	Accruals and deferrals

Accounts receivable adjustments - It is intended to record the risks that may occur related to receivables from third entities. It is credited by debit of the accounts 6.4.4 - Adjustments for the period. It is debited by credit to 7.4.1.4 - Reversals for the period, if the replacement or cancellation takes place in different period of their creation, or accounts that have been considered as an expense if the cancellation or replacement occur in the same period.

PGC		PGC PE	
Class 5 – Capital and equity (a)		**Class 5 – Equity (a)**	
5.1	Share capital	5.1	Share capital
5.2	Treasury shares	5.2	Treasury shares
5.3	Supplementary capital	5.3	Supplementary capital
5.4	Share premium	5.4	Share premium
5.5	Reserves	5.5	Reserves
5.5.1	Revaluation Reserve	5.6	**Surplus on revaluation of tangible and intangible assets (a) (c)**
	....	5.8	**Other changes in equity (b)**
5.9	Retained earnings	5.9	Retained earnings

(a) Code changed, but kept the content and concept
(b) New account, new concept
(c) Name changed, but kept the content and concept
(e) Name changed, concept and content changed

PGC		PGC PE	
Class 6 – Costs and losses accounts		**Class 6 - Expenses and losses (c)**	
6.1	Cost of sales	6.1	**Cost of inventories** (c)
6.2	Staff expenses	6.2	Staff expenses
6.3	Purchased supplies and services	6.3	Purchased supplies and services
6.4	Taxes and levies	6.4	**Adjustments for the period (c)**
6.5	Amortization for the period	6.5	Depreciation and amortisation for the period
6.6	Provisions for the period	6.6	Provisions for the period
6.7	Other operating expenses and losses		..................................(a)
6.8	Finance costs and losses	6.8	**Other operating expenses and losses (a)**
6.9	Extraordinary costs and losses (d)	6.9	**Finance costs and losses (a)**

Adjustments for the period - - It is intended to record the costs arising from adjustments made on 2.9 - Net realisable value adjustments, 3.9 - Financial investments adjustments and 4.7 - Accounts receivable adjustments.

PGC		PGC PE	
Class 7 Income and gains accounts		**Class 7 - Revenue and gains (c)**	
7.1	Sales	7.1	Sales
7.2	Services rendered	7.2	Services rendered
7.3	Work performed by the entity	7.3	Work performed by the entity **and capitalised (c)**
7.4	Operating grants	7.4	**Reversals of the period (a)(c)**
7.5	Supplementary income	7.5	Supplementary income
7.6	Other operating income and gains	7.6	Other operating income and gains
7.8	Finance income and gains	7.8	Finance income and gains
7.9	Extraordinary income and gains (d)		

Reversals for the period - It is intended to record the gains arising from adjustments made on 2.9 - Net realisable value adjustments, 3.9 - Financial investments adjustments and 4.7 - Accounts receivable adjustments.

(a) Code changed, kept the content and concept
(c) Name changed, but kept the content and concept
(d) Accounts "Extraordinary costs and losses" and "Extraordinary income and gains" do not exist in the new PGC PE. The expenses and income that do not arise in the course of ordinary activities are considered as "Other operating expenses and losses" and "Other operating income and gains" defined as follows:

- **Expenses** encompass both **costs** and **losses**. Costs are expenses arising in the course of ordinary activities as for example cost of sales wages, depreciation, etc. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity as those resulting from disasters such as fire and flood, as well as those arising on the disposal of non current assets.
- **Income** encompasses both **revenue** and **gains**. Revenue arises in the course of the ordinary activities of an entity and includes sales, fees, interest, dividends, etc. Gains represent other items that meet the definition of income but do not arise in the course of the ordinary activities of the entity as those arising on the disposal of non-current assets.

(a) Code changed, kept the content and concept

PGC		PGC PE	
Class 8 - Profit or loss accounts		**Class 8 - Profit or loss**	
8.1	Operating profit or loss	8.1	Operating profit or loss
8.2	Financial profit or loss	8.2	Financial profit or loss
8.3	Current Profit and losses	8.3	**Profit or loss before tax (c)**
8.4	Extraordinary profit and losses (d)		....
8.5	Income tax expense	8.5	Income tax expense
8.8	Net profit or loss for the period	8.8	Net profit or loss for the period
8.9	Advanced dividends	8.9	Advanced dividends

(b) New account, new concept
(c) Name changed, but kept the content and concept
(d) Accounts “Extraordinary costs and losses” and “Extraordinary income and gains” do not exist in the new PGC PE. The expenses and income that do not arise in the course of ordinary activities are considered as “Other operating expenses and losses” and “Other operating income and gains” defined as follows:

- **Expenses** encompass both **costs** and **losses**. Costs are expenses arising in the course of ordinary activities as for example cost of sales wages, depreciation, etc. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity as those resulting from disasters such as fire and flood, as well as those arising on the disposal of non current assets.
- **Income** encompasses both **revenue** and **gains**. Revenue arises in the course of the ordinary activities of an entity and includes sales, fees, interest, dividends, etc. Gains represent other items that meet the definition of income but do not arise in the course of the ordinary activities of the entity as those arising on the disposal of non-current assets.

(e) Name changed, concept and content changed
(f) Non existing account

5.3 Presentation of financial statements

Financial statements form part of the process of financial reporting. The objective of financial statements is to provide information about:

- Financial position (is provided mainly by balance sheet);
- Performance (is provided mainly by the income statement;
- Changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

In order to satisfy some of their different needs for information, the users of financial statements include current and potential investors, employees, lenders, suppliers, customers, governments and their agencies and the public

The main requirements for the presentation of the financial statements are as follow:

Complete set of financial statements for the PGC PE purposes	▪ Balance sheet; ▪ Income statement; ▪ Descriptive notes, additional information and other statements (together known as "Explanatory Notes").
Frequency of reporting	An entity shall present a complete set of financial statements (including comparative information) at least annually.
Comparative information	An entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall present two balance sheets and two income statements (current and previous period) as well as comparative information on related explanatory notes.
Consistency of presentation	An entity shall retain the presentation and classification of items in the financial statements from one period to the next.
Structure and content of the financial statements	Should be in the formats presented in section 5.3. These forms are prepared to accommodate most of the information needed to understand the transactions and other events of the entity. However, the lines which information is not available should be omitted from financial statements and added lines where the size, nature or function of an item is such that its separate presentation is relevant to understanding the financial statements.
Currency of the financial statements	Financial statements shall be presented in Meticais.
Balance sheet – Current/Non-current assets and liabilities distinction	An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in accordance with the subsequent paragraphs: *Current Assets* An entity shall classify an asset as current when: ▪ it expects to realise the asset, or intends to sell or consume it, within a year after the balance sheet date;

	▪ it holds the asset primarily for the purpose of trading; or ▪ the asset is cash. An entity shall classify all other assets as non-current. *Current Liabilities* An entity shall classify a liability as current when: ▪ it expects to settle the liability within a year after the balance sheet date; ▪ it holds the liability primarily for the purpose of trading; or ▪ the liability is due to be settled within one year after the reporting period. An entity shall classify all other liabilities as non-current.
Income Statement	An entity shall present all items of income and expenses recognized in the accounting period, through an income statement by nature. An entity may present an income statement by function may if it is the interest of the entity to provide additional information on its activity and this activity is of manufacturing nature. An entity shall not present any items of income or expense as extraordinary items, in the income statement, or in the notes.

5.4 Underlying assumptions

Accrual basis	The financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur and not as cash is received or paid and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
Going concern	The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations. If such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

5.5 Qualitative characteristics of financial statements

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability	An essential quality of the information provided in financial statements is that it is readily understandable by users.
Relevance	To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The relevance of information is affected by its **nature** and **materiality.** In some cases, the nature of information alone is sufficient to determine its relevance. In other cases, both the nature and materiality are important, for example, the amounts of inventories held in each of the main categories that are appropriate to the business. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
Reliability	To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. To be reliable, information must **represent faithfully** the transactions and other events it either purports to represent or could reasonably be expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the entity at the reporting date which meet the recognition criteria. If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their **substance and economic reality and not merely their legal form**. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. To be reliable, the information contained in financial statements must be **neutral**, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome. The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of **prudence** in the preparation of the financial statements**.** **Prudence** is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow,

	for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability. To be reliable, the information in financial statements must be **complete** within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.
Comparability	Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Because users wish to compare the financial position, performance and changes in financial position of an entity over time, it is important that the financial statements show corresponding information for the preceding periods.

5.6 Elements of financial statements

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are known as the elements of financial statements.

The elements directly related to the measurement of **financial position** in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of **performance** in the income statement are income and expenses:

Financial position	The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows: ▪ An asset 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; ▪ A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits; ▪ Equity is the residual interest in the assets of the entity after deducting all its liabilities.
Performance	Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses defined as follows: ▪ Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants; ▪ Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity

	participants. The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent. Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity that include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity.

5.7 New formats of the financial statements

5.7.1 Balance sheet

ASSETS	Notes	Period n	Period n-1
Non-current assets			
Tangible assets			
Investment property			
Intangible assets			
Biological assets			
Financial Investments			
Other non current assets			
Current assets			
Inventories			
Biological assets			
Trade receivables			
Other current assets			
Cash and Bank			
Total Assets			
EQUITY AND LIABILITIES			
Equity			
Share Capital			
Reserves			
Retained earnings			
Net profit or loss for the period			
Total equity			
Non-current liabilities			
Provisions			
Borrowings			
Other non-current liabilities			
Current liabilities			
Provisions			
Trade payables			
Borrowings			
Tax payables			
Other current liabilities			
Total Liabilities			
Total Equity and Liabilities			

5.7.2 Income statement

By nature

	Notes	Period n	Period n-1
Sales of goods and services			
Changes in production and work in progress			
Work performed by the entity and capitalized			
Cost of inventories sold or consumed			
Staff expenses			
Purchased supplies and services			
Depreciation and amortization for the period			
Provisions			
Adjustments from inventories			
Adjustments from receivables			
Other operating gains and losses for the period			
Finance income			
Finance costs			
Gains/losses from associates			
Profit or loss before tax			
Income tax			
Net profit or loss for the period			

By function (optional)

	Notes	Period n	Period n-1
Sales of goods and services			
Cost of sales of goods and services			
Gross profit			
Other income Distribution costs Administrative expenses Finance income/costs Other operating gains/losses Gains/losses from associates			
Profit or loss before tax			
Income tax			
Net profit or loss for the period			

5.7.3 Attached notes to the financial statements

It is the responsibility of each entity to prepare the explanatory notes with its own number sequence. However, an entity must maintain the numbering of the notes 1 to 4 concerning the issues presented therein, developing systematically from note 5, including the disclosures applicable to it, based on the sequence of financial information presented in the balance sheet and income statement providing a cross-reference to the items to which they relate.

The notes to be attached are the following:

1. Identification	Name of entity.
	Headquarters.
	Activity nature.
	Date and body that authorized the financial statements.
2. Basis of preparation	Identification of the bases of preparation of financial statements and the currency and unit of presentation.
	Disclosure and justification for departures from the PGC PE and their effects on the financial statements, in view of the need for these give a true and fair view of assets, liabilities and profits or losses.
	Disclosure and comments on the accounts of the balance sheet and income statement which contents are not comparable with those of previous years.
3. Main accounting policies	Disclosure of the significant accounting policies adopted in the preparation of the financial statements as prescribed by PGC PE.
4. Significant judgments, accounting estimates and assumptions	Disclosure of the significant judgments that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.
	Disclosure of the estimates and key assumptions at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
5. Changes in accounting policies, estimates and errors	Disclosure of voluntary changes in accounting policies with an effect on the current period or any prior period, or might have an effect on future periods, namely as to the nature, reasons and amounts of presented adjustments.
	Disclosure of changes in accounting estimates with an effect on the current period, or might have an effect on future periods, including the nature and amount of the change.

6. Tangible assets

Disclosure of the gross carrying amount and the accumulated depreciation at the beginning and end of the period and reconciliation of the related carrying amount (through the changes during the period) as follows:

Items	Opening balance	Revaluation	Increases	Disposals	Transfers/ retirements	Closing balance
Gross cost amount						
To disclose by each item of tangible assets						

Items	Opening balance	Revaluation	Increases	Disposals	Transfers/ retirements	Closing balance
Depreciations						
To disclose by each item of tangible assets						

Disclosure of the carrying amounts of restrictions on title, of tangible assets pledged as security for liabilities.

Explanation of the revaluations made (when applicable).

Disclosure of tangible assets and the corresponding carrying amount for the following situations:

(a) assets acquired under finance lease;

(b) assets held by third parties;

(c) assets located abroad;

(d) reversible assets (concessions).

Disclosure of abnormal depreciation recognized or reversed during the period.

Disclosure of the amount of borrowing costs capitalised during the period.

7. Intangible assets

Disclosure of the gross carrying amount and the accumulated depreciation at the beginning and end of the period and reconciliation of the related carrying amount (through the changes during the period) as follows:

Items	Opening balance	Increases	Disposals	Transfers/ retirements	Closing balance
Gross cost amount					
To disclose by each item of intangible assets					

Items	Opening balance	Increases	Disposals	Transfers/ retirements	Closing balance
Amortisations					
To disclose by each item of intangible assets					

Disclosure of the carrying amounts of intangible assets with restrictions on title, pledged as security for liabilities.

Disclosure of abnormal amortizations recognised or reversed during the period.

8. Inventories

Disclosure of the amount of any write-down of inventories recognised as an expense, or reversal, in the period as well as the circumstances or events that led to the reversal.

Disclosure of the adjustments made related to changes in the inventories during the period as follows:

Changes	**Goods**	**Finished and intermediate goods**	**Raw Materials**	**Biological assets**	**Other**
Gross carrying amount					
Adjustments					
Opening balance					
Increase					
Decrease					
Closing balance					
Net carrying amount					

Disclosure of tangible assets and the corresponding carrying amount for the following situations: (a) inventories held by third parties; (b) inventories on consignment; (c) Inventories in transit.

Disclosure of the carrying amount of inventories pledged as security for liabilities.

Statement of cost of inventories sold or consumed presented as follows:

Changes	Goods	Raw materials, ancillary and other materials	Biological assets
Inventories at the beginning of period			
Purchases			
Inventories adjustments			
Inventories at the end of the period			
Cost of the period			

Statement of the production changes during the period presented as follows:

Changes	Finished and intermediate goods	By-products, waste and scrap	Work in progress
Inventories at the end of the period			
Inventories adjustments			
Inventories at the beginning of period			
Increase/decrease of the period			

9. Trade and other receivables

Disclosure of the adjustments of receivables occurred during the period as follows:

Changes	Trade receivables	Other debtors	Other receivables
Gross carrying amount			
Adjustments			
Opening balance			
Increase			
Decrease			
Closing balance			
Net carrying amount			

10. Equity

Disclosure of the amounts of realized and non realized capital.

Statement with the changes occurred during the period for each equity item.

Disclosure of the nature and purpose of each reserve.

<table>
<tr><td>11. Provisions</td><td>Reconciliation between the carrying amount at the beginning and end of the period as follows:
<table><tr><th>Items</th><th>Opening balance</th><th>Increase</th><th>Decrease</th><th>Closing balance</th></tr><tr><td>To disclose by each item of provisions</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table></td></tr>
<tr><td>12. Government grants</td><td>Disclosure of the nature and extent of recognized in the financial statements.</td></tr>
<tr><td>13. Commitments and contingencies</td><td>Disclosure of existing commitments and contingencies, such as those arising from operating leases, equity investments, lawsuits and guarantees. It should also be disclosed the nature of any existing contingent assets.</td></tr>
<tr><td>14. Disclosures required by legislation</td><td>Disclosure of the information required by other legislation in force with impact on the activity of the entity.</td></tr>
<tr><td>15. Other information</td><td>Disclosure of relevant information for better understanding of the financial position and performance.</td></tr>
<tr><td rowspan="2">16. Events after balance sheet date</td><td>Disclosure of information received after the balance sheet date about conditions that existed at the balance sheet date.</td></tr>
<tr><td>Disclosure of the nature of the event and its financial effect of the events after balance sheet date that do not cause adjustments to the financial statements.</td></tr>
</table>

5.8 Measurement of the elements of financial statements

5.8.1 General principle

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement.

A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

Historical cost	Assets are recorded at the amount of cash to acquire them at the time of their acquisition or production. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
Current cost	Assets are carried at the amount of cash that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the amount of cash that would be required to settle the obligation currently.
Realisable (settlement) value	Assets are carried at the amount of cash that could currently be obtained by selling the asset. Liabilities are carried at their settlement values which are the amounts of cash expected to be paid to satisfy the liabilities in the normal course of business.

For PGC PE purposes the measurement basis, as a general principle, is the **historical cost**. However, under particular circumstances, other measurement basis may be used as, for example, the current cost for tangible assets (revaluation) and net realisable value for inventories .

5.8.2 Specific principles

The **specific principles of measurement** are detailed below, for each of the following elements of financial statements:

Inventories
Construction Contracts
Biological assets
Tangible and intangible assets
Finance and operating leases
Borrowing costs
Exchange differences
Provisions
Government Grants

5.8.2.1 Inventories

Rules:

A. Cost of purchase or conversion

- The costs of purchase of inventories comprise the purchase price, import duties and other non-deductible taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.
- The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production costs that are incurred in converting materials into finished goods. Fixed production costs include depreciation and maintenance of factory buildings, and the cost of factory management. Variable production costs include indirect materials and indirect labour.

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Brief explanation

Inventories shall be measured at the lower of cost and net realisable value**.**

The cost of inventories shall comprise **all costs of purchase**, **costs of conversion** and **other costs** incurred in bringing the inventories to their present location and condition.

Practical Example 1:

Equipamentos Desportivos, SA manufactures soccer balls.

In addition to the costs of acquiring production materials, such as plastic, the company also incurs in the following costs:

- freight
- handling fees

Additionally, the company is entitled to a rebate on the purchase price based on volume of raw material purchased.

Since the additional costs are incurred in cash to acquire the materials, the cost of purchase should include:

• Raw materials purchase price (net of rebates)	20.000.000 MT
• freight	2.000.000 MT
• handling fees	500.000 MT

How to record the transaction?

Debit: 2.1.2.1.	Purchases – Raw materials	22.500.000 MT
Credit: 1.2.1.	Bank (account nr.)	22.500.000 MT
Debit: 2.6.1	Raw materials	22.500.000 MT
Credit: 2.1.2.1.	Purchases – Raw materials	22.500.000 MT

Practical Example 2:

The production process of the Fábrica de Margarinas, Lda is usually smooth, just like its margarine in fact.

One day, a worker who was more occupied with how his favourite team is performing in the World Cup, measured out incorrect amounts of the ingredients. His error meant that the first batch amounting to 500 000 MT of the day was ruined.

This information was cascaded to the chief accountant who had to work out **how to record the cost of the wasted batch**.

The chief accountant knows that the costs involved in the production of the margarine are generally recognised as inventory.

However, **any excess spoilage is excluded from inventory**. Therefore, the accountant aggregated and **expensed the excess spoilage and abnormal waste as a period cost**.

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- The allocation of fixed production costs to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. Unallocated fixed production costs are recognised as an expense in the period in which they are incurred.
- Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted:
NCRF 9 – IAS 2

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Abnormal spoilage has no future economic benefits and is not incurred in bringing inventory to its present location and condition.

How to record the transaction?

Debit: 2.3.2	Finished goods	500 000 MT
Credit: 6.1.2.1	Change in production- Finished goods	500 000 MT
Debit: 6.8.4.9	Losses in inventories and biological assets	500 000 MT
Credit: 2.8.3	Invent. Adjust.- Finished and interm. goods	500 000 MT

B. Cost of outputs and measurement of inventories

- An entity shall use the same cost formula for all inventories having a similar nature and use to the entity.
- Inventories are measured at the cost of purchase or conversion except for: (1) agricultural, forestry and livestock activities, as well as fishing and mining industries, where the inventories can be measured at net realisable value, deducted from the appropriate gross margin;(2) in the absence of the most suitable criteria, by-products, waste and scrap are measured at net realisable value i.e the difference between the sale price and the estimated costs required for finishing and sale;(3) in the retail industry where large numbers of items are traded the cost of the inventory can be determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

Brief explanation

The cost of outputs from inventories shall be assigned by using, in principle, the weighted **average cost formula**.

Inventories are measured at the **cost of purchase** or **conversion.**

Practical Example 1: Cost of purchase

Company ABC, a retailer, sells televisions at final consumer price of 50.000 MT. The manufacturer offers 20 percent discount to all retailers and an additional discount of 15 percent for orders more than 20 units.

On 2 January the company purchased 20 units in cash. What is the purchase cost of each unit?

Cost of purchase	Value
Sale price	50.000
20% discount retail	(10.000)
Price to a dealer who buys 1 unit	40.000
Quantity discount 15%> 20 units	(7.500)
Price to the dealer who buys 20 units	32.500
Total payable (32.500*20)	650.000

The manufacturer also provides a cash discount of 2 percent, and the ABC shall pay deducted from the rebate. The value of the cheque is 637.000 MT (650.000-13.000)

The purchase cost of each unit is 32.500 MT (650.000/20) as the discount for prompt payment is a financial gain and cannot be deducted from the purchase cost.

How to record the transaction?

Debit: 2.1.1	Purchases - Goods	650.000 MT
Credit: 1.2.1	Bank	637.000 MT
Credit: 7.8.5	Discounts on cash payments	13.000 MT
Debit: 2.2.1	Goods	650.000 MT
Credit: 2.1.1	Purchases	650.000 MT

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Practical Example 2: - *Cost of conversion*

Moagem AAA, Lda. produces corn flour. The industrial process gets two products - corn flour (product A) and bran (by-product B). The latter is a waste of low commercial value (5 MT / KG)

In a given month we obtained the following production data:

Inputs	**Value (MT)**
Raw Materials (RM)	47,250
Direct wages	7,500
Other production costs (OPC)	5,000
Total	59,750

Production	**Qt. Produced (Kgs)**
Product A – Corn flour	9,000
By-product B - Bran	450

Inventory		**QT(MT)**
Start of the month	Production in progress	0
	Production finished	0
End of the month	Product A	5,000
	By-product B	450

Commercial costs	**Value (MT)**
Product A – Corn flour	5,000
Product B - Bran	0

What is the inventory cost of product A and sub-product B?

Inputs	**Value (MT)**
RM + wages + OPC	59,750
Value of the Product B	(2,250)
Total Cost	57,500

The inventory cost of product A is **33.194 MT** [57.500 ÷ 9000 × 5000]. Commercial costs are costs of the period and may not be included in the cost of the finished product. The net realisable value of Product B is deducted from the cost of production of product A.

How to record the transaction?

Debit: 2.3.2	Finished goods	57.500 MT
Debit: 2.4.1	By-products	2.250 MT
Credit: 6.1.2.1	Change in production – Finished goods	57.500 MT
Credit: 6.1.2.2	Change in production – By-products	2.250 MT

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted:
NCRF 9 – IAS 2

5.8.2.2 Construction contracts

Rules:

- The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.
- A contractor may have incurred contract costs that relate to future activity on the contract. Such contract costs are recognised as an asset provided it is probable that they will be recovered. Such costs may also represent an amount due from the customer and are often classified as contract work in progress.
- The stage of completion of a contract may be determined in a variety of ways. The entity uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:
  - ✓ the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs;
  - ✓ surveys of work performed; or
  - ✓ completion of a physical proportion of the contract work.

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Brief explanation

Contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. Alternatively, construction contracts can be measured by maintaining costs up to its completion.

An expected loss on the construction contract shall be recognised as an expense immediately.

Practical Example 1

Construtora Lda has agreed to construct a tunnel within the financial year. The contract billed amounts to 40.000.000 MT and the direct costs incurred are 38.000.000 MT.

Construtora Lda should recognise revenue of 40.000.000 MT, costs of 38.000.000 MT and profit of 2.000.000 MT (margin = 5 percent).

The margin in a fixed price contract depends on final cost incurred.

How to record the transaction?

Debit: 2.3.2	Finished services	38.000.000 MT
Credit: 2.5	Work in progress	38.000.000 MT
Debit: 6.1.2.1	Change in production - Finished services	38.000.000 MT
Credit: 2.3.2	Finished services	38.000.000 MT
Debit: 4.1.1	Trade receivable - current account	40.000.000 MT
Credit: 7.2.2	Services rendered	40.000.000 MT

It is assumed that during construction the direct costs were being charged to the account 2.5 - Work in progress.

Practical Example 2

Arte, Lda. has agreed with the government to construct a block of flats for low income earners. The margin fixed over costs incurred and approved is 2%.

At the year end direct costs of 20.000.000 MT have been incurred and nothing was invoiced.

Arte, Lda. should recognise revenue of 20.400. 000 MT [20.000.000 + (20.000.000 x 2% margin) = 20.400.000], cost 20.000.000 MT and profit 400.000 MT (margin 2%) as the outcome can be estimated reliably.

How to record the transaction?

Debit: 4.9.2.3	Revenue from construction contracts	20.400.000 MT
Credit: 6.1.2.3	Change in production - Work in progress	20.400.000 MT

It is assumed that during construction the direct costs were being charged to the different cost accounts by nature from class 6.

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Progress payments and advances received from customers often do not reflect the work performed.

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted: NCRF 10 – IAS 11

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Practical Example 3

Daniel & Filhos, Lda. has agreed a contract with the Government to construct a refinery. The margin over costs incurred and approved is fixed at 5%.

The company is not yet sure of the costs incurred this year.

Daniel & Filhos, Lda. cannot recognise any contract revenue or contract cost as the outcome is not estimate reliably, because costs attributable to the contract, whether or not specifically reimbursable cannot be measured reliably and clearly identified.

It is assumed that during construction the direct costs were being kept at the account Work in progress.

5.8.2.3 Biological assets

Rules:

- An entity shall recognise a biological asset or agricultural produce when, and only when:
  - ✓ the entity controls the asset as a result of past events;
  - ✓ it is probable that future economic benefits associated with the asset will flow to the entity; and
  - ✓ The *net realisable value* or cost of the asset can be measured reliably.
- Agricultural produce shall be measured at its *net realisable value* less gross margin at the point of harvest. For example, the *net realisable value* of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle to that market.

Brief explanation

Biological assets are defined as living animals or plants. In an agricultural environment, biological assets are produced, sold or transformed into additional biological assets from controlled processes that manage their growth and maturation. In sharp contrast to conventional fixed assets like real estate and machinery, biological assets constantly change through time as dictated by their own growth cycle that includes growth, degeneration, production and procreation.

In normal circumstances agricultural, forestry and livestock activities, as well as fishing the inventories can be measured at net realisable value less gross margin at the point of harvest.

Practical Example

The business of Empresa Pecuária do XaiXai Lda, is cattle production and raise them for sale. On 31/12/2008 the company had a herd of 100 calves of 12 months valued by 900.000 MT (9.000 MT by head).

At the closing date of the subsequent financial year 31/12/2009, this herd classified as lot 1 was already in the class of steers of 24 months. Net realisable value less gross margin on this date was:

Calves of 12 months – 8.800 MT
Steers of 24 months – 15.000 MT

Calculation of the current value of the lot 1 (considering at 31/12/2009 the net realisable value less gross margin + change of animal's age + no deaths + no sales):

1.	Herd of calves of 12 months on 01/01/009	900.000 MT
2.	Herd of steers of 24 months on 31/12/2009	1.500.000 MT
3.	Herd of calves of 12 months on 31/12/2009	880.000 MT
4.	Effect of physical change (2-3)	620.000 MT
5.	Effect of change in the net realisable value (3-1)	(20.000)MT
6.	Change in the period (2-1)	600.000 MT

Recognition in financial statements:

1. In the income statement for the period:

Gain by growing changes	620.000 MT
Loss on changes in the net realisable value	20.000 MT

2. The inventories on the balance sheet should present the biological assets as follows:

Initial value of the herd	900.000 MT
Final value of the herd	1,500.000 MT

The recognition of biological assets at net realisable value(NRV) shows the asset variations in the carrying amount occurred during the period even if not realised. The recognition in this way turns the accounting data more useful and true than the recognition of the outcome at the time of sale by the end of the operating cycle that may be extended up to four years.

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How to record the transactions?

Valuation at year-end 31/12/2009:

Debit: 2.9.7	Inventory adjustments - Biological Assets	600.000 MT
Debit: 6.4.1	Adjustments for the period – to NRV	20.000 MT
Credit: 7.4.1.1	Reversals for the period – to NRV	620.000 MT

Meanwhile, during the year 2009 a new lot classified as number 2 of 20 calves was born that at 31/12/09 had an average age of 6 months valued at 80 000 MT (4 000 MT by head)

How to recognise and record the new lot 2?

Debit: 2.7.1.1	Biological Assets - Livestock	80 000 MT
Credit: 6.1.2.3	Change in production	80 000 MT

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted:
NCRF 11 – IAS 41

5.8.2.4 Tangible and intangible assets

Rules:

- The cost of a tangible or intangible asset item comprises its purchase price, including import duties and non-refundable taxes, after deducting trade discounts and rebates and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The cost of a self constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale.

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted:
NCRF 13 – IAS 16
NCRF 14 – IAS 38

Brief explanation

Tangible and intangible assets shall be initially measured at their cost.

Practical Example:

Fabrica Textil, Lda., a large textiles manufacturer, recently acquired a range of new computers. The invoice items of purchase was:

Equipment	1.640.000 MT
VAT – 17%	278.800 MT
Total	2.918.800 MT

Other costs incurred regarding the above assets were:

- import duties, representing 10 percent of the equipment costs 164.000 MT
- training costs 1.000.000 MT
- installation of the computers 1.200.000 MT
- replacement of the network due to increased volume of traffic 600.000 MT

Which costs can be capitalised to the asset, and which cannot be?

Costs that should be capitalised as computers	**Costs that cannot be capitalised as computers**
purchase cost	Value added tax
import duties	Training costs
installation costs	Replacement of the net works is not a cost that is necessary for bringing the asset into its working condition – however, it may represent the replacement of an asset already recognised
Costs that should be capitalised as network installation	
replacement of the network	

How to record the transaction?

Debit: 3.2.3.	Furniture and fixtures (computers)	3.004.000 MT
Debit: 3.2.3	Furniture and fixtures (network)	600.000 MT
Debit: 4.4.3.2.2	Deductible VAT	278.800 MT
Debit: 6.2.9	Other staff expenses	1.000.000 MT
Credit: 1.2.1	Bank (account nr.)	4.882.800 MT

5.8.2.5 Financial and operating leases

Rules

Finance leases

- A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned by the entity. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Operating leases

- Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted: NCRF 17 – IAS 17

Brief explanation

When an asset is acquired through financing based on a finance leasing contract, lessees shall, at the commencement of the lease term, recognise finance leases as assets and liabilities in their balance sheets by the amounts valued in the corresponding contract. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Pratical Example 1: Finance leases

MSF Lda. needs to buy a piece of machinery at a cost of 1.000.000 MT. It decides to take out a five-year bank loan for 1.000.000 MT, at an interest rate of 8 percent. The company agrees to pay 250.000 MT to the bank at the end of each year.

KJL Lda. enters into a five-year finance lease agreement for an identical piece of machinery to the one bought by MSF Lda. KJL Lda. pays 250.000MT at the end of each year with an option to purchase the asset at the end of the lease for a nominal amount.

In substance, the loan transaction made by MSF Lda and the finance lease transaction by KJL Lda are identical. KJL, Lda. may recognise the following in its balance sheet: an asset of 1.000.000 MT and a corresponding liability of 1.000.000 to the lessor.

This is identical to the treatment of the asset and bank loan in MSF balance sheet.

How to record the transaction in both companies?

Debit: 3.2.2...	Equipment	1.000.000 MT
Credit: 4.3.1.2.	Bank loans – Medium and long term	1.000.000 MT

Pratical Example 2: Operating leases (incentive for lessees under operating leases)

ABC, Lda leases a building for twenty years under an operating lease. For the first five years, ABC Lda. has reduced rentals of 90.000 MT, which were given to encourage them to sign the lease agreement. For the other fifteen years, ABC, Lda. pays 100.000 MT per year.

The total reduction in rent is 50.000 MT (10.000 x 5). If this is allocated across the lease term there is a reduction in the rental charge of 2.500 MT per year (50.000/20).

The rental charge recognised in income statement for each of the twenty years on a straight-line basis is 97.500 MT (100.000 – 2.500).

How to record the transactions?

Annually – for the first five years:

Debit: 6.3.2.3.2.1	Hire and rental charges	97.500 MT
Credit: 4.9.1.9	Other accrued expenses	7.500 MT
Credit: 1.2.1	Bank (account nr.)	90.000 MT

Annually – for the other fifteen years

Debit: 6.3.2.3.2.1	Hire and rental charges	97.500 MT
Debit: 4.9.1.9	Other accrued expenses	2.500 MT
Credit: 1.2.1.	Bank (account nr.)	100.000 MT

5.8.2.6 Borrowing costs

Rules

- Except in the circumstances described in the following paragraph, borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs may include interest on bank overdrafts and other borrowings, ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. For these purposes, the assets which can be attributed to borrowing costs as part of its cost are inventories (only when its production takes longer than one year), and the tangible and intangible assets that, when acquired, are not ready for its intended use or sale (ie, which are ongoing).
- An entity shall begin capitalising borrowing costs when it incurs expenditures for the asset, it incurs borrowing costs; and it undertakes activities that are necessary to prepare the asset for its intended use or sale. This capitalisation shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete.

Brief explanation

Normally borrowing costs are recognised as an expense in the period in which they are incurred. However, the borrowing costs can be directly attributable to acquisition, construction or production of a qualifying asset forming part of the cost of that asset.

Practical Example 1:

The company ABC benefited from a loan amounting 15.000.000 MT to finance the construction of building (Investment property) with an interest rate of 10 percent.

During the year ABC used only 5.000.000.000 MT and the remaining 10.000.000 MT was invested in a short-term deposit at an interest rate of 5 percent, up to the maturity of the subsequent payment.

Any interest earned from the deposit on term will be deducted from the total cost of the loan.

The amount of interest to capitalize during the year will be 1 000.000.000 MT as per the following calculation:

(15.000.000 MT× 10%) – (10.000.000.000 MT× 5%) = 1 000.000.000 MT

How to record the transactions?

Debit: 3.4.2	Assets under construction	5.000.000 MT
Debit: 1.2.3	Bank - Term deposits	10.000.000 MT
Credit: 4.3.1.2	Borrowing - Medium and long term	15.000.000 MT
Debit: 1.2.3	Bank - Term deposits	500.000 MT
Credit: 3.4.2	Assets under construction	500.000 MT
Debit: 3.4.2	Assets under construction	1.500.000 MT
Credit: 4.3.1.2	Borrowing - Medium and long term	1.500.000 MT

Practical Example 2:

The company Imobiliária Lda. incurried the following amounts in the complete construction of an investment property:

March	100 000 000 MT
July	250 000 000 MT
October	300 000 000 MT

What will be considering the borrowing costs to capitalize that the company benefits from 2 different loans with an average interest rate of 8 percent?

Given the uneven use of the loans throughout the year, it should apply the capitalization rate weighted to the time of use of borrowed capital, as follows:

Expended amounts	Períod	Capitalization weighted rate
100.000.000	10/12	(8%*10)/12 = 6.7%
250.000.000	6/12	(8%*6)/12 = 4.0%%
300.000.000	3/12	(8%*3)/12 = 2.0%

.../...

.../...

Thereafter:

(100.000.000 × 6,7%) + (250.000.000 × 4,0%) + (300.000.000 × 2,0%) = 22,700.000 MT

The amount of interests to capitalize during the year will be 22,700.000 MT.

How to record the transactions?

Debit: 3.6.	Investment property	22.700.000 MT
Credit: 4.3.1.2	Borrowing - Medium and long term	22.700.000 MT

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted:
NCRF 27 – IAS 23

5.8.2.7 Exchange differences

Rules:

- Exchange differences arising on the receipt or settlement of receivable or payable monetary items at rates different from those at which they were translated on the transaction date shall be recognised in profit or loss in the period in which they arise.
- At the date of each balance sheet trade receivables and payables expressed in foreign currency shall be translated using the closing exchange rate. Exchange differences arising from this translation shall be recognised in profit or loss of the period. Regarding long-term receivables and payables the corresponding exchange differences shall be recognised in deferred accounts, where there are reasonable expectations that the gain or loss is reversible. Subsequently as cash settlements or receipts are being made, they will be transferred to income or expenses, whether there is actual gain or loss.

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted:
NCRF 23 – IAS 21

Brief explanation

A foreign currency transaction shall be recorded, by applying to the foreign currency amount the spot exchange rate between the local currency and the foreign currency at the date of the transaction. The exchange differences shall be recognised in profit or loss in the period in which they arise.

Practical Example:

This example looks at how a foreign currency transaction of an entity called ABC is recorded in the functional currency. The example demonstrates the following:

- initial and subsequent recognition of a foreign currency transaction
- the treatment of the resultant exchange differences

On 1/11/2009 ABC (functional currency is MT) buys a house for a social purpose for USD 500.000 on short term credit. The exchange rate was 1 USD=24 MT. At the end of the reporting period the house is not being depreciated as it has not yet been brought into use. At 31/12/2009, ABC end of reporting period, the payable is still unsettled and the exchange rate was 1 USD = 25 MT.

How to record the transactions?

On 1/11/2009 – initial recognition:

The USD transaction is initially recognised in the functional currency MT by applying to USD 500.000 the spot exchange rate between the dollar and the MT at the transaction date (1/11/2009).

The house and corresponding payable are recorded at 12.000.000 MT (500.000*24 MT):

Debit: 3.2.1.3	Buildings for housing & social purposes	12.000.000 MT
Credit: 4.6.1.1	Capital expenditure creditors	12.000.000 MT

On 31/12/2009 – subsequent recognition carried at historical cost:

At the end of reporting period: the payable is a monetary item, so it is translated at the closing rate. The house is a non-monetary asset and held at historical cost, so is kept at the transaction rate.

On 31/12/2009 payable is 12.500.000 MT (500.000*25), the house remains at 12.000.000 MT. An exchange loss of 500.000 MT that arises on the payable and is recognised as loss:

Debit: 6.9.4.2	Foreign exchange losses – Unrealised	500.000 MT
Credit: 4.6.1.1.	Capital expenditure creditors	500.000 MT

On 01/01/2010 – reversal of unrealised exchange differences

Given that these foreign exchange differences are unrealised and therefore not deductible for tax purposes, on 1/01/10 this record should be reversed to ensure that at the time of payment total exchange differences from the time of initial recognition up the moment of payment are assessed and expended as realised. The entry will be:

Debit: 4.6.1.1.	Capital expenditure creditors	500.000 MT
Credit: 6.9.4.2	Foreign exchange losses – Unrealised	500.000 MT

5.8.2.8 Provisions

Rules:

- The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at balance sheet date.
- Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of cash will be required to settle the obligation, the provision shall be reversed.

Brief explanation

A provision shall be recognised when an entity **has a present obligation as a result of a past event** and it is probable that an **outflow of cash will be required** to settle the obligation and a reliable estimate can be made of the amount of the obligation. If these conditions are not cumulative met**, no provision shall be recognised.**

Practical Example 1:

On 12 December 2009 the board of Omega Texteis, Lda. decided to discontinue a division making a particular product. On 20 December 2009, a detailed plan for the closure was agreed by the board.

On 20 December, **letters were sent to customers** warning them to seek alternative suppliers, and **redundancy notices were sent to staff**. The end of the reporting period is 31 December 2009.

In this case, there is a **present obligation** as a result of a **past event**.

The obligating event is the announcement of the decision to the customers and employees (**before** the end of the reporting period).

This creates a **valid expectation** that the division will be closed - so, this is a **constructive obligation** and therefore **provision is recognised**. The estimate value for the provision is 2.000.000 MT.

How to record the transaction?

Debit: 6.6.4 Provisions - Business restructuring for the period 2.000.000 MT
Credit:4.8.4 Provisions - Business restructuring 2.000.000 MT

Usually the announcement of such decisions is followed by a rationale of cost saving.

Practical Example 2:

On 12 December 2009 the board of Alpha, Lda. made the decision to discontinue one of its divisions.

Before the end of the reporting period (31 December 2009), the decision had not been communicated to any of those affected, and no other steps had been taken to implement the decision.

Even though management made the decision to close down the division, they are not obligated to do so - also, they have the ability to change their decision.

There is **no constructive obligation**, as they have not informed staff or customers of the decision, so they have **not created a valid expectation**.

In this case, there has been **no obligating event**, and therefore **no provision is recognised**.

It is also important to note that there is no past event here, obligating or otherwise - any expenditure will be incurred in the future.

.../...

…/…

Practical Example 3:

The government has introduced a number of changes to the income tax system.

As a result of these changes, Beta, Lda's. Financial Services will need to re-train most of its administrative and sales workforce in order to ensure that it continues to comply with regulations.

At the end of the reporting period, no retraining of staff has taken place.

Having established the circumstances of the situation, the recognition principles may now be applied:

- Present obligation?

  In this case there is **no present obligation.** This is because the obligation event would be, for example, a contract with a training supplier for the retraining to the staff, and no such event has yet taken place.

  The expenditure would only be recognised when the training had started, and this would be expensed immediately.

- Probable outflow of resources?

  An outflow of resources embodying economic benefits is probable – however, there is **no obligation event,** so this is not taken into account

- Accounting?

  As there is no present obligation, **no provision is recognised,** even though a future outflow of resources is probable.

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted:
NCRF 24– IAS 37

5.8.2.9 Government grants

Rules:

- Government grants shall be recognised only when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received.
- Government grants related to assets, including non-monetary grants, shall be presented in the balance sheet as deferred income which is recognised in profit or loss on a systematic and rational basis over the useful life of the asset.
- Government grants related to income are recognised as an income in the income statement, under the conditions presented in the paragraph 1.

If there is need or interest in deepening the accounting basis, concepts and principles in PGC PE, its nature and extent, the Conceptual Framework and Glossary incorporating the PGC - NIRF should be complementary used

Standard to be consulted: NCRF 26– IAS 20

Brief explanation

The Government grants shall be recognised in the income statement on a systematic basis over the necessary periods to compensate the related costs.

Government grants are credited to the income statement and not accounted to equity.

Practical Example:

The ABC company invested 500,000 MT in the modernization of industrial equipment with an expected life of five years. Depreciation is calculated using the straight line method. The recognition of the total amount of equipment occurs in the year of acquisition. The company receives a government allowance of 100,000 MT for this equipment, also in the 1st year, under the condition to achieve certain objective, in terms of employment, to be achieved within the next two years.

How to record the transactions?

1st year

Debit: 3.2.2	Equipment	500.000 MT
Credit: 1.2.1	Bank (account nr.)	500.000 MT
Debit: 1.2.1	Bank (account nr.)	100.000 MT
Credit: 4.9.2.4	Accruals and deferrals - Investment grants	100.000 MT
Debit: 4.9.2.4	Accruals and deferrals - Investment grants	20.000 MT
Credit: 7.6.1	Grants for investments	20.000 MT
Debit: 6.5.1	Depreciation and amortisation for the period	100.000 MT
Credit: 3.8.2	Accumulated depreciation and amortisation	100.000 MT

Summary of the transactions:

Cost of equipment	500 000 MT
Credit deferred income - grant received	100,000 MT
Less transfer to income (100.000/5anos)	(20,000) MT
Balance of deferred income at the year end	80 000 MT
Debit depreciation (500,000 / 5)	(100,000) MT
Net value of the equipment at the end of year	400 000 MT

2nd year up to 5th year

Debit: 4.9.2.4	Accruals and deferrals - Investment grants	20.000 MT
Credit: 7.6.1	Grants for investments	20.000 MT
Debit: 6.5.1	Depreciation and amortisation for the period	100.000 MT
Credit: 3.8.2	Accumulated depreciation and amortisation	100.000 MT

Summary of the transactions in each year:

Brought from deferred income	20 000 MT
Debit Depreciation	(100,000) MT
Net amount charged to the income statement	80 000 MT

6. TRANSITION FROM PGC TO PGC PE

6.1 Procedures

The first financial statements based on the PGC PE will be presented for the year ended on 31/12/2011 and will need to compare the elements of financial statements with those related to the year ended 31 December 2010 accounted for on the basis of former PGC, as required by the following balance sheet form:

Description	Notes	Year ended 31/12/2011	Year ended 31/12/2010

On the date of adoption of the PGC PE, 01/01/2011, it is necessary to ensure that the financial statements will satisfy the assumptions of going concern and comparability.

All restatement work of the financial year 2010 deemed necessary for comparability purposes represent an extra work-book, getting the records and financial statements for 2010 intact for historical and tax purposes.

Therefore, you should proceed to the preparation of an opening detailed balance sheet based on the PGC PE. This is the starting point for its accounting in accordance with PGC PE and it shall be used as comparative balance sheet in the first financial statements prepared under PGC PE for the 2011 financial year.

In summary, the work of restatement (PGC -> PGC PE) consists of:

- Interpret the contents of new accounts;
- Develop a table of correspondence between the accounts of each class of the former PGC to PGC PE and note the used criteria; a basic table is presented in the next section.
- Create the new chart of accounts based on PGC PE;
- Reclassify the accounts of the balance sheet related to the financial year 2010 that were recognized as an asset, liability or equity to PGC PE accounts;
- Prepare the opening balance sheet on 01/01/2011, transposing the carrying amounts of the balance sheet accounts on 31/12/2010 to the corresponding accounts of the PGC PE (this process may need to split balances by more than one account and to aggregate others).
- Process the opening of year 2011 based on the opening balance sheet;
- Support this first record of the year with all produced documentation of conversion.

6.2 Table of correspondence between the accounts of former PGC and PGC PE

The following codes and accounts must be compulsory applied, mainly the ledger accounts, but with sufficient margin to enable various entities to adapt to their business. Certain secondary accounts that with the new PGC PE were merged may be kept in subsidiary accounts if such detailed information is advantageous for management.

Some accounts of former PGC are not reflected in PGC PE to which it is necessary to find a solution. Until better interpretation to be made by the *Organismo Regulador da Normalização Contabilística* (governor of accounting standards) to be created, we assume the solutions, according to the following notes:

Note 1 - To demonstrate the flexibility in setting up additional accounts to better reflect the detail of the information needed by different users of the financial statements, the former PGC included ellipses in the right places. Despite these ellipses are not in the PGC PE, the same principle shall be used. This is particularly relevant in Inventory accounts where the purchases of biological assets, goods and finished products at warehouse, between others, were not foreseen.

Note 2 – These accounts are not foreseen in the PGC PE but applying the same logic of the previous note may be created following the appropriate sequence of the ledger account.

Note 3 - All accounts related to negotiable securities existing in the former PGC have no corresponding account in the new PGC PE. These titles are apparently only considered as financial investments in the accounts of class 3 assuming that investments of this nature are always medium and long term financial applications. In addition, short-term treasury applications are also expected to be carried forward at 1.2 Bank. However, for short-term financial investments that should not be kept in bank accounts will be created the account 1.3 - Other financial instruments similar to PGC NIRF.

Note 4 – As per paragraph 29 of Chapter 2.3 – Measurement of the elements of financial statement of the SCE at the date of each balance sheet, trade receivables and payables expressed in foreign currency shall be translated using the closing exchange rate. Exchange differences arising from this translation shall be recognised in profit or loss of the period. Regarding long-term receivables and payables the corresponding exchange differences shall be recognised in deferred accounts, where there are reasonable expectations that the gain or loss is reversible. Subsequently as cash settlements or receipts are being made, they will be transferred to income or expenses, whether there is actual gain or loss. Therefore considering the last situation these accounts should be created following the appropriate sequence of the ledger account.

Note 5 - As per paragraph 21 and 22 of Chapter 2.3 – Measurement of the elements of financial statement of the SCE Government grants shall be recognised in profit or loss on a systematic basis over the necessary periods to compensate the related costs. Government grants related to assets, including non-monetary grants, shall be presented in the balance sheet as deferred income, which is recognised in profit or loss on a systematic and rational basis over the useful life of the asset. Therefore this account in Equity is no longer applicable.

PGC		PGC PE	
1.1	Cash	1.1	Cash
1.2	Bank	1.2	Bank
1.2.1	Deposits held on call	1.2.1	Deposits held on call
1.2.2	Deposits at notice	1.2.2	Deposits at notice
1.2.3	Term Deposits	1.2.3	Term Deposits
1.3	Trade receivable	4.1	Trade receivable

PGC		PGC PE	
1.3.1	Current account	4.1.1	Current account
1.3.2	Securities receivable	4.1.2	Securities receivable
…	...		*Note 1*
1.3.8	Doubtful debts	4.1.8	Doubtful debts
1.3.9	Advances from clients	4.1.9	Advances from clients
1.4	State	4.4	State
1.4.1	Income tax	4.4.1	Income tax
1.4.1.1	Withholding tax	4.4.2	Withholding tax
		4.4.2.1	Income from employment
1.4.1.1.1	2nd category	4.4.2.2	Professional income
1.4.1.1.2	3rd category	4.4.2.3	Capital returns
1.4.1.1.3	4th category	4.4.2.4	Property income
1.4.1.1.4	5th category	4.4.2.5	Other income
1.4.1.2	Tax estimate	4.4.1.1	Tax estimate
1.4.1.2.1	Progress payments	4.4.1.2	Progress payments
1.4.1.2.2	Special progress payments	4.4.1.3	Special progress payments
1.4.1.3	Recoverable		*Note 2*
1.4.1.4	Reimbursements requested		*Note 2*
		4.4.3	Value added tax
1.4.3	Input VAT	4.4.3.1	Input VAT
1.4.3.1	Inventory	4.4.3.1.1	Inventories
1.4.3.2	Fixed assets	4.4.3.1.2	Tangible and intangible assets
1.4.3.3	Other goods and services	4.4.3.1.3	Other goods and services
1.4.4	Deductible VAT	4.4.3.2	Deductible VAT
1.4.4.1	Inventory	4.4.3.2.1	Inventories
1.4.4.2	Fixed assets	4.4.3.2.2	Tangible and intangible assets
1.4.4.3	Other goods and services	4.4.3.2.3	Other goods and services
1.4.5	Vat Adjustments	4.4.3.4	Vat Adjustments
1.4.5.1	Monthly adjustments in favour of taxable person	4.4.3.4.1	Monthly adjustments in favour of taxable person
1.4.5.2	Annual adjustments by calculation of final pro rata	4.4.3.4.3	Annual adjustments by calculation of final pro rata
1.4.6	VAT recoverable	4.4.3.8	VAT recoverable
1.4.7	VAT requested refunds	4.4.3.9	VAT requested refunds
1.4.9	Tax adjustments, contributions and other levies	4.4.5	Tax adjustments, contributions and other levies
1.5	Debtors – partners, shareholders or owners	4.5.4	Debtors – partners, shareholders or owners
1.5.1	Loans receivable	4.5.4.1	Loans receivable
1.5.2	Advances on profits	4.5.4.2	Advances on profits
1.5.3	Distributed profits and losses	4.5.4.3	Distributed profits and losses
1.5.4	Available profits	4.5.4.4	Available profits
…	...		*Note 1*
1.5.9	Other transactions	4.5.4.9	Other transactions
1.6	Other receivables	4.5	Other receivables
1.6.1	Employees	4.5.1	Employees
1.6.1.1	Advances to corporate bodies	4.5.1.1	Advances to corporate bodies
1.6.1.2	Advances to employees	4.5.1.2	Advances to employees
…	...		*Note 1*
1.6.1.8	Other transactions with corporate bodies	4.5.1.8	Other transactions with corporate bodies
1.6.1.9	Other transactions with	4.5.1.9	Other transactions with

PGC		PGC PE	
	employees		employees
1.6.2	Subscribers of Capital	4.5.2	Subscribers of Capital
1.6.2.1	State and other public entities	4.5.2.1	State and other public entities
1.6.2.2	Private entities	4.5.2.2	Private entities
1.6.2.9	Other entities	4.5.2.9	Other entities
1.6.3	Bond holders		*Note 2*
		4.5.5	Grants receivable
		4.5.5.1	State and other public entities
		4.5.5.2	Private entities
1.6.9	Other debtors	4.5.9	Other debtors
1.7	Negotiable securities		*Note 3*
1.7.1	Shares		*Note 3*
1.7.2	Bonds and participation bonds		*Note 3*
1.7.3	Government bonds		*Note 3*
…	…		*Note 1*
1.7.8	Other securities		*Note 3*
1.7.9	Other financial applications		*Note 3*
1.8.	Provisions	4.7	Accounts receivable adjustments
1.8.1	Provision for doubtful receivables		
1.8.1.1	Trade receivables	4.7.1	Trade receivables
1.8.1.2	Other receivables	4.7.2	Other receivables
1.8.2	Provision for negotiable securities		*Note 3*
1.8.2.1	Shares		*Note 3*
1.8.2.2	Bonds and participation bonds		*Note 3*
1.8.2.3	Government bonds		*Note 3*
…	…		*Note 1*
1.8.2.8	Other securities		*Note 3*
1.8.2.9	Other financial investments		*Note 3*
1.9	Increase in income and deferred costs	4.9	Accruals and deferrals
1.9.1	Accrued income	4.9.3	Accrued income
1.9.1.1	Interest to be received	4.9.3.1	Interest receivable
		4.9.3.3	Revenue from construction contracts
…	…		*Note 1*
1.9.1.9	Other accrued income	4.9.3.9	Other accrued income
1.9.2	Deferred costs	4.9.4	Deferred expenses
1.9.2.1	Discount in the issuing of bonds		*Note 3*
1.9.2.2	Discount in the issuing of participation bonds		*Note 3*
1.9.2.3	Exchange losses		*Note 4*
1.9.2.3.1	Fixed assets under construction		*Note 4*
1.9.2.3.2	Other		*Note 4*
1.9.2.9	Other deferred costs		*Note 2*
2.1	Purchases	2.1	Purchases
2.1.2	Goods	2.1.1	Goods
…	...		*Note 1*
2.1.6	Raw materials and other supplies	2.1.2	Raw materials and other supplies
2.1.6.1	Raw materials	2.1.2.1	Raw materials
2.1.6.2	Ancillary materials	2.1.2.2	Ancillary materials
2.1.6.3	Other materials	2.1.2.3	Other materials
2.1.6.3.1	Fuel and lubricants	2.1.2.3.1	Fuel and lubricants

PGC		PGC PE	
2.1.6.3.2	Packaging	2.1.2.3.2	Packaging
2.1.6.3.3	Spare parts	2.1.2.3.3	Spare parts
…			*Note 1*
2.1.6.3.9	Other materials	2.1.2.3.9	Other materials
2.1.7	Returned purchases	2.1.7	Returned purchases
2.1.8	Discounts and rebates on purchases	2.1.8	Discounts and rebates on purchases
…	...		*Note 1*
2.2	Goods	2.2	Goods
…	...		*Note 1*
2.2.5	Goods in transit	2.2.1	Goods in transit
2.2.6	Goods held by third parties	2.2.2	Goods held by third parties
…	...		*Note 1*
2.3	Finished and intermediate goods	2.3	Finished and intermediate goods
…	...		*Note 1*
2.3.6	Finished goods held by third parties	2.3.1	Finished goods held by third parties
…	...		*Note 1*
2.4	By-products, waste and scrap	2.4	By-products, waste and scrap
2.4.1	By-products	2.4.1	By-products
2.4.6	Waste, residues and scrap	2.4.2	Waste and scrap
2.5	Products or services in progress	2.5	Products or services in progress
2.6	Raw materials, auxiliaries and other materials	2.6	Raw materials and other supplies
2.6.1	Raw materials	2.6.1	Raw materials
2.6.2	Ancillary materials	2.6.2	Ancillary materials
2.6.3	Other materials	2.6.3	Other materials
2.6.3.1	Fuel and lubricants	2.6.3.1	Fuel and lubricants
2.6.3.2	Packaging	2.6.3.2	Packaging
2.6.3.3	Spare parts	2.6.3.3	Spare parts
…	...		*Note 1*
2.6.3.9	Other materials	2.6.3.9	Other materials
2.6.5	Raw materials and other supplies in transit	2.6.4	Raw materials and other supplies in transit
		2.7	Biological assets
		2.7.1	For production
		2.7.1.1	Livestock
		2.7.1.2	Plants
		2.7.2	Consumables
		2.7.2.1	Livestock
		2.7.2.2	Plants
2.8	Inventory adjustments	2.8	Inventory adjustments
2.8.2	Goods	2.8.2	Goods
2.8.3	Finished and intermediate goods	2.8.3	Finished and intermediate goods
2.8.4	By-products, waste and scrap	2.8.4	By-products, waste and scrap
2.8.5	Products or services in progress	2.8.5	Products or services in progress
2.8.6	Raw materials, auxiliaries and other materials	2.8.6	Raw materials and other supplies
		2.8.7	Biological assets
2.9	Provision for inventory depreciation	2.9	Net realisable value adjustments
2.9.2	Goods	2.9.2	Goods
2.9.3	Finished and intermediate goods	2.9.3	Finished and intermediate goods

PGC		PGC PE	
2.9.4	By-products, waste and scrap	2.9.4	By-products, waste and scrap
2.9.5	Products or services in progress	2.9.5	Products or services in progress
2.9.6	Raw materials, auxiliaries and other materials	2.9.6	Raw materials and other supplies
		2.9.7	Biological assets
3.1	Financial assets	3.1	Financial investments
3.1.1	Shares	3.1.1/3.1.2	Investments in subsidiaries/ Investments in associates
3.1.2	Bonds and participation bonds		
3.1.3	Invest. on immovable property		
3.1.4	Other financial assets	3.1.3	Other financial investments
3.1.4.1	Government bonds		
3.1.4.2	Other securities		
…	…		*Note 1*
3.2	Fixed assets	3.2	Tangible assets
3.2.1	Buildings	3.2.1	Buildings
3.2.1.1	Industrial buildings	3.2.1.1	Industrial buildings
3.2.1.2	Administrative and commercial offices	3.2.1.2	Administrative and commercial offices
3.2.1.3	Buildings for housing and other social purposes	3.2.1.3	Buildings for housing and other social purposes
…	...		*Note 1*
3.2.1.6	Transport infrastructures and similar constructions	3.2.1.6	Transport infrastructures and similar constructions
3.2.2	Equipment	3.2.2	Equipment
3.2.3	Furniture and fixtures	3.2.3	Furniture and fixtures
3.2.4	Vehicles	3.2.4	Vehicles
3.2.5	Returnable containers	3.2.5	Returnable containers
3.2.6	Tools and utensils	3.2.6	Tools and utensils
…	...		*Note 1*
3.2.9	Other tangible assets	3.2.9	Other tangible assets
3.3	Intangible assets	3.3	Intangible assets
3.3.1	Set-up or expansion costs		
3.3.1.1	Business establishment costs		
3.3.1.2	Increase of capital	3.3.4	Set-up or expansion costs
3.3.1.3	Industrial studies and projects		
3.3.1.4	Commercial studies and projects		
…	…		*Note 1*
3.3.2	Costs of research and development	3.3.1	Development costs
3.3.3	Industrial property and other rights	3.3.2	Industrial property and other rights
3.3.4	Goodwill	3.3.3	Goodwill
…			*Note 1*
3.4	Assets under construction	3.4	Assets under construction
3.4.1	Financial assets		*Note 2*
3.4.2	Tangible assets	3.4.2	Tangible assets
3.4.3	Intangible assets	3.4.3	Intangible assets
		3.6	Investment property
3.8	Amortizations	3.8	Accumulated depreciation and amortisation
3.8.1	On financial assets		*Note 2*
3.8.1.3	Invest. on immovable property	3.8.6	Investment property

PGC		PGC PE	
3.8.2	Fixed assets	3.8.2	Tangible assets
3.8.2.1	Constructions		
3.8.2.2	Basic equipment		
3.8.2.3	Furniture and office equipment		
3.8.2.4	Transport equipment		
3.8.2.5	Containers		
3.8.2.6	Tools and utensils		
…	…		
3.8.2.9	Other fixed assets		
3.8.3	Intangible assets	3.8.3	Intangible assets
3.8.3.1	Costs of constitution or expansion		
3.8.3.2	Costs of research and development		
3.8.3.3	Industrial property and other rights		
3.8.3.4	Goodwill		
…	…		*Note 1*
3.9	Provision for financial assets	3.9	Financial investments adjustments
3.9.1	Shares	3.9.1	Financial investments
3.9.2	Bonds and participation bonds		
3.9.4	Other financial assets		
4.1	Trade payables	4.2	Trade payables
4.1.1	Trade payables – current account	4.2.1	Trade payables – current account
4.1.2.	Securities payable	4.2.2.	Securities payable
…	...		*Note 1*
4.1.9	Advances to suppliers	4.2.9	Advances to suppliers
4.2	Borrowings	4.3	Borrowings
4.2.1	Bank loans	4.3.1	Bank loans
4.2.1.1	Short term	4.3.1.1	Short term
4.2.1.2	Medium and long term	4.3.1.2	Medium and long term
4.2.3	Bond Loans		*Note 2*
4.2.3.1	Convertible		*Note 2*
4.2.3.2	Non-convertible		*Note 2*
4.2.4	Participation bond loans		*Note 2*
…	…		*Note 1*
4.2.9	Other loans received		*Note 2*
4.4	State	4.4	State
4.4.1	Income tax	4.4.1	Income tax
4.4.2	Withholding tax	4.4.2	Withholding tax
4.4.2.1	First category income	4.4.2.1	Income from employment
4.4.2.2	Second category income	4.4.2.2	Professional income
4.4.2.3	Third category income	4.4.2.3	Capital returns
4.4.2.4	Fourth category income	4.4.2.4	Property income
4.4.2.5	Fifth category income	4.4.2.5	Other income
4.4.3	Assessed VAT	4.4.3.3	Assessed VAT
4.4.3.1	General transactions	4.4.3.3.1	General transactions
4.4.3.2	Self consumption and gifts	4.4.3.3.2	Self consumption and gifts
4.4.3.3	Special transactions	4.4.3.3.3	Special transactions
4.4.4	Vat Adjustments	4.4.3.4	Vat Adjustments
4.4.4.1	Monthly adjustments in favour of State	4.4.3.4.2	Monthly adjustments in favour of State

PGC		PGC PE	
4.4.4.2	Annual adjustments by calculation of final pro rata	4.4.3.4.3	Annual adjustments by calculation of final pro rata
4.4.5	VAT assessment	4.4.3.5	VAT assessment
4.4.6	VAT assessed by Tax Authorities	4.4.3.6	VAT assessed by Tax Authorities
4.4.7	VAT payable	4.4.3.7	VAT payable
4.4.8	Remaining taxes	4.4.4	Remaining taxes
4.4.8.1	Stamp duty	4.4.4.1	Stamp duty
4.4.8.2	Municipal taxes	4.4.4.2	Municipal taxes
…	...		*Note 1*
4.4.9	INSS contributions	4.4.9	INSS contributions
4.5	Creditors – members, shareholders or owners	4.6.7	Creditors – partners, shareholders or owners
4.5.1	Borrowings	4.6.7.1	Borrowings
4.5.2	Advances against profits	4.5.4.2	Advances on profits
4.5.3	Distributed profits	4.6.7.3	Distributed profits
4.5.4	Available profits	4.6.7.4	Available profits
4.6	Other payables	4.6	Other payables
4.6.1	Capital expenditure creditors	4.6.1	Capital expenditure creditors
4.6.1.1	Capital expenditure creditors – Current account	4.6.1.1	Capital expenditure creditors – Current account
4.6.1.2	Capital expenditure creditors - Payable securities	4.6.1.2	Capital expenditure creditors - Payable securities
4.6.1.3	Capital expenditure creditors - Advances	4.6.1.3	Capital expenditure creditors - Advances
…	...		*Note 1*
		4.6.1.4	Capital expenditure creditors - Finance lease
4.6.1.9	Other transactions	4.6.1.9	Other transactions
4.6.2	Employees	4.6.2	Employees
4.6.2.1	Remuneration payable to corporate bodies	4.6.2.1	Remuneration payable to corporate bodies
4.6.2.2	Remuneration payable to employees	4.6.2.2	Remuneration payable to employees
…	...		*Note 1*
4.6.2.8	Other transactions with corporate bodies	4.6.2.8	Other transactions with corporate bodies
4.6.2.9	Other transactions with employees	4.6.2.9	Other transactions with employees
4.6.3	Trade unions	4.6.3	Trade unions
4.6.4	Creditors by way of unpaid subscriptions	4.5.2	Subscribers of Capital
4.6.5	Bond holders		*Note 2*
4.6.6	Consultants, advisors and intermediaries	4.6.6	Consultants, advisors and intermediaries
…	...		*Note 1*
4.6.9	Other creditors	4.6.9	Other creditors
4.8	Provision for risks and costs	4.8	Provisions
4.8.1	Outstanding legal matters	4.8.1	Outstanding legal matters
4.8.2	Accidents at work and occupational diseases	4.8.2	Accidents at work and occupational diseases
4.8.3	Taxes	4.8.3	Taxes
		4.8.4	Business restructuring
		4.8.5	Onerous contracts

PGC		PGC PE	
		4.8.6	Warranty obligations
		4.8.7	Losses on construction contracts
…	…		*Note 1*
4.8.9	Other risks and costs	4.8.9	Other provisions
4.9	Increase in costs and deferred income	4.9	Accruals and deferrals
4.9.1	Increase in costs	4.9.1	Accrued expenses
4.9.1.1	Interest payable	4.9.1.1	Interest payable
4.9.1.2	Remuneration payable	4.9.1.2	Remuneration payable
…	...		*Note 1*
4.9.1.9	Other accrued costs	4.9.1.9	Other accrued expenses
4.9.2	Deferred income	4.9.2	Deferred income
4.9.2.1	Premiums for the issuing of bonds		*Note 2*
4.9.2.2	Premiums for the issuing of participation bonds		*Note 2*
4.9.2.3	Exchange gains		*Note 4*
4.9.2.3.1	On fixed assets under construction		*Note 4*
4.9.2.3.2	Others		*Note 4*
		4.9.2.3	Revenue from construction contracts
4.9.2.4	Investment grants	4.9.2.4	Investment grants
…	...		*Note 1*
4.9.2.9	Other deferred income	4.9.2.9	Other deferred income
5.1	Share capital	5.1	Share capital
5.2	Treasury shares	5.2	Treasury shares
5.2.1	Nominal value	5.2.1	Nominal value
5.2.2	Discounts and premiums	5.2.2	Discounts and premiums
5.3	Supplementary capital	5.3	Supplementary capital
5.4	Share premium	5.4	Share premium
5.5.	Reserves	5.5.	Reserves
5.5.1	Revaluation reserves	5.6	Surplus on revaluation of tangible and intangible assets
5.5.1.1	Decree 13/88, of 11 November	5.6.1	Legal revaluations
5.5.1.2	Decree 33/93, of 30 December		
		5.6.2	Other surplus
5.5.2	Legal reserves	5.5.1	Legal reserves
5.5.3	Statutory reserves	5.5.2	Statutory reserves
5.5.4	Free reserves	5.5.3	Free reserves
5.5.5	Donations		*Note 5*
…	…		*Note 1*
		5.8	Other changes in equity
5.9	Accumulated profits and losses	5.9	Retained earnings

7. FISCAL IMPACT OF CHANGES

The following table summarizes the tax treatment of income and expenses and **highlights in bold** the main changes to the Code of IRPC (Corporate Income Tax Code), arising from the entry into force of new concepts of accounting and financial reporting, with relevance in determining the taxable profits of companies subject to the implementation of the PGC PE:

1. Revenue or gains qualified for tax purposes	Sales and rendering of services, discounts, bonus and reductions.
	Commissions and brokerage.
	Income from immovable property.
	Financial income (interest, dividends and other participation in profits, exchange differences **if realised** (premiums on the issuing of bonds, etc.). **Only realised exchange differences are considered as income in accordance with Law.**
	Remuneration earned for the undertaking of directors and fiscal meetings.
	Income from assets or compulsory undertaking.
	Income from industrial property or similar items.
	Scientific or technical services rendered.
	Realized capital gains.
	Compensations.
	Subsidies or exploration grants.
	Valuation of the biological products - biological assets on initial recognition or gains on increases of net net realisable value less gross margin.
	The annulment of extraordinary amortization, if these have been requested and authorized by the respective Tax Department of the Fiscal Area.
2. Revenue or gains not qualified for tax purposes (not included in the taxable profit)	Capital receipts, including premiums for the issuing of shares, as well as the coverage of losses made by the holders of the capital.
	Potential or deemed capital gains, even if reflected in the accounts (e.g. valuation of an asset by means of revaluation and increase of the value of shares held).
	Increases in assets subject to tax on successions and donations.
	The contributions, including the sharing in losses, of the associated to the associate within the scope of the association in participation and association to shares.
	Gains arising from market price increases related to investment property.
	Gains arising from changes in market value of assets and liabilities, if it is not certified by reference to a stock exchange.

	Gains arising from operations of concentration of entrepreneurial activities, such as merging of enterprises and acquisition of assets and liabilities, if the transferred net worth, rights and obligations are transferred as a whole.
	Gains arising from deferment of IRPC and of any other taxes that are applicable, directly or indirectly, to profits.
3. Expenses and losses acceptable as deductible for tax purposes	Costs referred to the production or acquisition of any goods or services (e.g. raw materials, labour, electricity, maintenance, repairs).
	Distribution and selling costs, including those relating to transport, advertising and placing of goods.
	Finance costs (e.g. interest on loans applied in the operations, discounts, transfers, **exchange differences if realised**, expenses relating to credit operations, debt collection and issuing of titles).
	Administrative costs (e.g. remuneration, subsistence allowances, pensions or retirement supplements costs, consumables, transport, communications, rentals, litigation, insurance, contributions to pension funds and any other complementary social security schemes).
	Costs related to reviews, rationalisation, research and consulting.
	Fiscal and similar costs to which the taxable person is subject, excluding the costs shown in the section 5.
	Depreciation and amortisation.
	Provisions or **impairment losses** (Impairment loss is part of the recorded amount of an asset that exceeds its recoverable amount).
	Realized capital losses.
	Costs incurred relating to events for which no insurance is available.
	Costs of advertising campaigns - Advertising campaigns are considered actions to launch brands, products or services with an economic projection horizon more than one year. Although they are entirely expended in the year in which they occur the costs are deductible for tax purposes over three fiscal years.
	Charges for capital improvements, legal restructuring of companies, bonds issuance, exploration, research and studies. Although they are entirely expended in the year in which they occur the costs are deductible for tax purposes over three fiscal years.
	Expenses with bonuses and other remuneration of the work of members of corporate bodies and employees of the company, by way of profit sharing, since the amounts are paid or made available to recipients by the end of the subsequent year.
	Losses arising from valuation of biological assets.
	The reinforcement of the provisions made in the subsequent years to their creation and calculated based on their discounted value in the course of the time (the concept of the time value of money) and

	recognized as financial costs at the income statement.
4. Inventory costing criteria accepted for tax purposes	The inventory costing criteria accepted for tax purposes for the determination of the accounting profit / losses of the year are those that use: ▪ Effective acquisition and production costs Companies that use this criterion can value their inventory based on the following methods **should reflect all the costs with the acquisition, transformation and other necessary to the production and its placement in a storing place:** - Specific cost – cost incurred in acquiring or producing; - Weighted average cost - the outputs of inventory are valued at the unit cost arising from the weighted average of the quantities purchased and the different purchase prices; - FIFO (*First in First Out)* – the outputs from inventories are valued at the oldest cost of goods that are in the warehouse. **Note that, with the change introduced by Law nº 20/2009, 10 September, the criterion LIFO is not anymore acceptable as of 1st January 2010.** ▪ Standard costs assessed according to adequate technical and accounting principles Whenever a significant deviation from the standard costs arises, the Tax Authority may make the necessary corrections based on an investigation of the assumptions used, on the amount of the sales and the final inventory turnover. ▪ Sale prices deducted from the common profit margin This criterion is only accepted in sectors of activity where the acquisition or production costs become excessively expensive or cannot be assessed with reasonable certainty. Whenever it is not easy to determine the common profit margin, a maximum 20% deduction from the selling price is accepted. For this purpose, the following are considered as selling prices: - Those contained in official data; or - The last that in normal conditions have been practiced by the company, or - Those which are current in the market at the end of the financial year. ▪ Special costing for basic or common inventory The adoption of this criterion is subject to prior approval from the Tax Authority on request basis. The application to be submitted to the Tax Authority must indicate the adopted criteria and the reasons for its use. ▪ **Costing based on market price quote** **In the case of a taxable person that produce and sell agricultural products and other biological assets, whenever they have suitable register and control over the production cycle, the inventories should be valued on the basis of the market price quote, deducting the costs at the sales point.** **Note** that, the criteria adopted for inventory costing cannot be altered except for justified economic or technical reasons accepted by the Tax Authority.

5. Expenses and losses not acceptable as deductible for tax purposes	IRPC and any other taxes which are directly or indirectly levied on profits.
	Taxes and any other charges that are levied on third parties and which the company is not legally authorised to bear.
	Fines and other charges for the practice of infractions, of whatever nature, which do not originate from a contract, including compensation interest.
	Indemnities for the happening of events which could be insured.
	50% of expenses with subsistence allowances and compensation for the use of own vehicle by the employee, at the service of the employer and not invoiced to the client, recorded at any title, except for the part that is subject to taxation under IRPS, with respect to the respective beneficiary.
	80% of entertainment expenses recorded in the accounts in whatever form. For these purposes entertainment expenses are: costs incurred relating to receptions, meals, travel, trips and concerts / shows offered in the country or abroad to clients and / or suppliers or to any other persons or entities.
	Unsupported expenses and or illicit expenses; Unduly documented expenses are costs which supporting documentation does not meet the legal requirements. Unsupported or illicit expenses are those without supporting documents.
	Amounts due for rental of light passenger or multipurpose vehicles without a driver, with reference to the amount of the depreciation of such vehicles that is not accepted as a tax deductible cost in terms to be determined.
	The portion relating to fuel costs that a taxable person is unable to prove that it refers to its assets or was utilized by the taxable person under leasing and that normal consumption was not exceeded, related to the activities of the company.
	50% of expenses related to light passenger vehicles, namely, rentals, repairs and fuel, except when the vehicles are allocated to the operation of public transport services or destined to be rented within the scope of the normal activities of the taxable person.
	Losses arising from market price decreases related to investment property.
	Losses arising from changes in market value of assets and liabilities, if it is not certified by reference to a stock exchange.
	Expenses arising from outflows, in cash or in kind, in favor of the holders of equity, as remuneration or reduction of it or sharing of net worth.
	Estimated losses by the taxable persons on multi-annual contracts in progress at the year end.
	The costs with advertisement, in the part exceeding 1% of the turnover arising from the usual activity in the respective year.
	Those that are not related to the activities of the taxable person that are subject to IRPC (e.g.: acquisition of bedroom furniture, when the activity of the taxable person is operating a restaurant).

	Potential or deemed capital gains even when expressed in the accounts.
	Payments in cash or kind in favour of shareholders as remuneration or share capital reduction or division of equity.
	Instalments from the associate to the associated, within the scope of the association in participation.
	Those resulting from the effects of deferment of IRPC and of any other taxes that directly or indirectly are applicable to profits.
	Those resulting from reclassification from own shares or quotas to liabilities.
6. Specialization of taxable income.	The taxable profit is determined in each financial year, based on the income and costs according to the accrual based accounting principle. This principle consists of recognizing income and expenses when incurred or obtained, irrespective of its receipt or payment, and should be included in the financial statements of the periods to which they relate.
	The profits or gains and the costs or losses, as well as any other variations in the net worth, reflected in the accounting records arising from the utilization of the equity method to value an investment in associated companies, does not agree to the determination of the taxable income; the profits or gains for tax purposes should be considered those profits specific to the accounting year in which they arise.
	The government subsidies whose receipt does not depend on any condition or limitation are attributable on a systematic basis to the accounting periods, during the necessary periods, to offset the costs related with them.
	The costs and profits originated by financial instruments carried at amortised cost are specific to the accounting period to which they relate.
	The taxable person that have the objective to producing and selling agricultural and other biological products, that: – **have the suitable records and control over the production cycle, including budgeting and follow-up of costs and expenses; and** – **whose final product has a market price quoted previously estimated and disclosed.** **Can recognize the profits and related costs, as the production cycle progresses, in accordance to the percentage of progress on that cycle, and measured on the basis of the estimated price quotes and the total budgeted costs.**

8. FREQUENTLY ASKED QUESTIONS

How do you know what depreciation percentage to use if the items to be depreciated are not covered in the depreciation law?

The existing legislation on this matter is the Ministerial Order (*Portaria)* No. 20 817 dated January 27, 1968, establishing the bases and rates of depreciation and amortisation to be applied to tangible and intangible assets. This legislation is outdated (for more than forty years), not providing certain developed technological items, such as computer equipment. There is already a proposal for new tables that are still under consideration for approval.

However, it is necessary to calculate the asset's useful life, where the percentage of depreciation is not established by this Ministerial Order and subject to approval by the Revenue Authority, through a reasoned proposal to be submitted to the respective Tax Department of the area of residence of the taxpayer.

Tax departments of the area of residence of the taxpayer represent the its main link to the Tax Authority.

Is there any law guiding the accounting software a company uses? What software is actually government approved?

The legislation applicable to accounting establishes bases, concepts, principles and requirements to be complied with accounting and financial reporting.

The entity is free to choose the system for the accounting process, provided that the financial statements is prepared on a basis that reflect the required qualitative characteristics and appropriate accounting standards in order to show a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an entity.

Currently, it no longer makes sense to elect for manual accounting processing, so the natural choice is the accounting processing by a computer, the use of packages with more or fewer features available in the market.

The decision regarding the type of software to use is at discretion of the entity, which must be carefully selected, taking into account *inter alia* the size and scope of the activity, the detail of financial reporting needs for information in order to satisfy both management as different users of financial statements and legal requirements.

3 How should a company account for “gifts” such as computers, freezers, etc, received as part of the mobile phone renewal packages?

This kind of instance cannot be referred to as a gift in the strict sense, since its cost is included in the contract. In terms of marketing is really attractive to the customer causing him to choose the product because it has the feeling that when consuming the services it gets a gift.

Taking the common example of mobile phone companies operating in the country, where, under a contract for a period of two years, customers acquire the right to gifts of their choice (a computer, a washing machine, etc) at the beginning the contract or/and at the time of renewal, as explained below should be processed in the records:

- The computer should be valued at market price which is normally released by the company in advertising flyers for supply of various types of service packages and gifts. Assuming the customer's choice was a computer valued at 24,000 MT. The initial recognition will be:

Debit:	3.2.3	Furniture and fixtures	24.000 MT
Credit:	4.6.1.1.	Capital expenditure creditors – C/A	24.000 MT

- The invoice of the mobile phone company in January 2010 was 3,000 MT. Knowing that the price charged includes two cost components: (i) the mobile telephone service and (ii) the “gift”, the invoice will be recorded as follows:

  Calculating the value of the computer for months: (24,000 MT / 24 months = 1,000 MT / month)

Debit:	6.3.2.2.4	Communications	2.000 MT
Debit:	4.6.1.1.	Capital expenditure creditors – C/A	1.000 MT
Credit:	1.2.1	Bank	3.000 MT

Note: If the contract is cancelled, that is, before two years, the balance at the supplier account will be a gain to the user and a loss to the service provider.

4 When a loan is in US$ but captured in the companies accounts in its Meticais value, with the depreciation of the Meticais you repay a higher Meticais value than the original Metical value posted, where do you post this additional value paid

A foreign currency transaction shall be recorded, by applying to the foreign currency amount the spot exchange rate between the local currency and the foreign currency at the date of the transaction.

Exchange differences arising on the receipt or settlement of receivable or payable monetary items at rates different from those at which they were translated on the transaction date shall be recognised in the income statement in the period in which they arise.

At the date of each balance sheet trade receivables and payables expressed in foreign currency shall be translated using the closing exchange rate. Exchange differences arising from this translation shall be recognised in profit or loss of the period. (see example - section 5.8.2.7).

5

If you report in another currency is it legal to keep your records like asset register, in the reporting currency and then convert the periodic depreciation at the relevant exchange rate?

The accounting records and financial reporting will always be denominated in Meticais because of fiscal legislation, even if Metical is not the functional currency of the entity. There are exceptions if special permission is obtained from Ministry of Finance. The asset is a non-monetary and held at historical cost. Therefore it is kept at the transaction rate (see example - section 5.8.2.7).

If you wish additionally to report to some specific entity in a currency other then Metical you must keep as extra book control or through appropriate software the value of the assets at historical cost, ie, the value of foreign currency at the transaction date and the depreciation calculated based on this carrying amount.

Assuming that the cost of asset is US$10,000 depreciable in five years, you should keep the carrying amount of the asset by US$10,000 and annual depreciation by US$2,000. Any arising exchange difference from this transaction will be considered as a non-distributable translation reserve conversion kept in equity, which can be positive or negative depending on the situation.

6

How does the PGC PE expect to account for items like biological valuations and are the related gains or losses taxable/claimable?

Biological assets - agricultural, forestry and livestock activities, as well as fishing and mining industries, where the inventories can be measured at net realisable value, deducted from the appropriate gross margin.

A gain or loss may arise from this valuation and it will be accounted for as a profit or loss of the reporting period (see section 5.8.2.3), and they qualify as gains or losses for tax purposes.

7

How do we account for the ***pagamento special por conta (PEC)***? Can we deduct it against future payable amounts?

The amount of the PEC is deductible from the amount of the tax due (it is considered in the assessment of the tax) and up to the limit of what was paid (if not sufficient in a specific year it can be carried forward for three years). Note that if the total amount of the PEC was not possible to deduct, there will be no reimbursement, contrary to what happens with the provisional tax payment, which is always deductible from the tax assessed and can be reimbursed.

Thus, the special payment on account is an asset during the period that is eligible for deduction. It must be recorded and kept in the subsidiary account “4.4.1.3 Special payment on account” to its full deduction or cancellation if not possible its deduction. Please note that by definition of income tax, if not fully deducted the remaining balance is not accepted as deductible cost for tax purposes and therefore should be added to the taxable income in the form M/22 field 211.

What are the asset categories for Mozambique accounts?

An asset is defined as:

"*A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity*"

The PGC PE provides the following classes of assets classified as follows:

ASSETS	
Current assets	**Non-current assets**
Inventories	Tangible assets
Biological assets	Investment property
Trade receivables	Intangible assets
Cash and Bank	Biological assets
	Financial Investments

If a company self builds (a construction company builds their own offices for example) and for this reason the value of the new asset is higher than the direct costs (stone, sand, cement purchased from suppliers) due to the involvement of the company (their equipment, labor etc is not charged to the asset), where does the difference get posted. For example, the building has direct costs of US$10,000 but is independently valued at US$15,000 (and posted as an asset at US$15,000) were the balance of US$5,000 to be posted? Does it go to the 5510 account - asset revaluation or the 7300 account – Investment realized by the company?

The PGC PE establishes:

"The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale"

Therefore, the basis for calculating the cost of building (office) built by the company itself should be identical to that used for the calculation of similar building for sale, by charging all direct costs (construction materials as well as direct labor, equipment and other direct costs) to the related accounts of "expenses and losses" on historical cost convention basis, which is the measurement basis to adopt under PGC PE. Based on either a cost accounting system or other work in progress control used by the company and a budget as usually performed for a client the total cost of the building should be obtained including direct and indirect costs (administration charges, indirect labour, etc.).

Thus, assuming that the cost is calculated at USD 15,000 (direct and indirect costs) or independently valued at that cost and the exchange rate is 1USD = 30 MT at the end of the construction the building should be recorded in the accounts as follows:

Debit:	3.2.1.2	Administrative and commercial offices	450.000 MT
Credit:	7.3.2	Work performed by the entity and capitalised – Tangible assets	450.000 MT

If at year end the building is not complete an estimation of the completion stage should be assessed and if considered that 50% or greater of the building is complete then the following entries should be made:

Debit:	3.4.	Investments in progress	225.000 MT
Credit:	7.3.2	Work performed by the entity and capitalised – Tangible assets	225.000 MT

At the end of the building the entries should be:

Debit:	3.2.1.2	Administrative and commercial offices	450.000 MT
Credit:	7.3.2	Work performed by the entity and capitalised – Tangible assets	225.000 MT
Credit:	3.4.	Investments in progress	225.000 MT

Accordingly to the PGC PE, revaluations shall be recorded in the 5.6 "Surplus on revaluation of tangible and intangible assets" in return for adjustments to the value of tangible assets, when in particular circumstances, and duly authorised by the Tax Authority, the criterion of measurement is the current cost, where the assets are shown by the amount that would be paid if the same asset or an equivalent asset was acquired currently.

If an asset is fully depreciated and still in use, how do we account for the resultant economic benefits generated?

If a tangible asset is fully depreciated and remains in use, it should be revalued and depreciated based on the additional life estimate.

If the asset is not revalued the cost of benefits arising from its use is not recognized.

Please note that if the revaluation is not approved by the Tax Authority the depreciation arisen from the added value will not be accepted as deductible cost for tax purposes and should be added to the taxable income.

How do you account for impaired assets?

The impairment loss concept is not applicable to users of PGC PE. It means that it is not recognised in the income statement the part of the carried amount of an asset that exceeds its recoverable amount. This standard is applicable only to entities under the scope of PGC.NIRF.

12

If a holding company, called AAA, is not a trading company, but is registered, and has two other companies that are trading companies, all owned by an overseas company, but linked under the holding company. The assets are all under AAA's name, but the other two companies are using them.

- What is the tax implication?
- Should there be a lease agreement between the holding company and the trading companies?
- Should the assets be sold on paper to the trading companies?
- Should the annual depreciation of the assets go to the holding company or the trading company?
- The assets are insured with the holding company AAA?

The availability of assets to subsidiaries of a holding company shall be managed through a contract between the parties and may take the form of an operating lease of equipment, with rental payment subject to VAT.

The insurance, as well as the annual depreciation costs belongs to the company that owns the assets and are recorded in its accounts.

The sale may be elected at a management discretion decision. If this is the case the VAT is also applicable following the rules described in FAQ 15.

13

Are expenses relating to bringing assets to working condition such as installation and transport included in capitalisation of assets? If so, do they have the same write off period? Is the full amount of expenditure capitalised? With respect to installation, does this qualify as professional fees and is withholding tax applicable and not form part of asset cost?

The PGC PE establishes:

> *"The cost of a tangible or intangible asset item comprises its purchase price, including import duties and non-refundable taxes, after deducting trade discounts and rebates and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.*

Thus, installation costs and transport are capitalized, forming an integral part of the cost of the asset (see example section 5.8.2.4) as well as professional fees directly attributable to the asset. The depreciation of the asset will be calculated on the overall value, using the depreciation rate applicable to the asset type.

Only costs incurred during the period required to bring the asset into operation will be capitalized.

Regarding the withholding tax on professional fees (IRPS or IRPC), it must be noted as the name indicates the tax is part of the fees that is being withhold. Therefore the tax must be paid to the respective Tax Department until the 20th of the subsequent month in which the fees were made available to the person or company and capitalized as part of the installation fees.

14 How repairs and maintenance of assets are treated? Is there a reasonable value rule that determines the need of capitalization?

The value of repairs is capitalizable if they result in increasing the life of the asset as an improvement to original output of capacity.

15 Please include information on how to deal with sale of fixed assets, tax on sale of fixed assets, capital gains?

Sales of fixed assets are normally subject to output **VAT** except in the following operations:

- Transactions subject to *Sisa* (Immovable property transfer Tax), even if they are exempt there from.

  Example:

  The sale of real estate assets is exempt from VAT, as these transfers are subject to Sisa.

- Sales of assets related exclusively to an exempt activity where input VAT was fully supported on purchase;
- Sales of assets that where input VAT was not deductible on purchase;
- Sales of assets which purchase did not give rise to a right of deduction of VAT under Article 20 of VAT Code. This exemption only applies where the acquisition has given rise to the assessment of VAT, which was not deductible under that article.

  Example:

  The acquisition of a light vehicle in a stand does not give rise to a right of deduction of VAT pursuant Article 20 of VAT Code. If the buyer subsequently sells this light vehicle VAT is not applicable.

  Note that in the case of assets acquired from an individual by a company, the subsequent sale shall be subject to VAT.

In terms of Corporate Income Tax (IRPC), capital gains realized on transfer of fixed assets are subject to IRPC.

However the positive balance between capital gains and losses resulting from the transfer of tangible fixed assets for a consideration are not included in the determination of taxable profit (in other words, such balance is deducted from the profit / losses of the year) if:

- The realisation value corresponding to the total of the referred assets is reinvested in the acquisition, manufacturing or construction of fixed assets, and
- Reinvestment is made by the end of the third financial year subsequent to the year of reinvestment. The reinvestment period may be extended until the fourth financial year subject to authorization by the Minister of Finance obtained by means of an application by the interested party submitted until the end of the financial year to which the capital gains refer.

This mechanism for the deduction of this balance from the profit / losses of the year represents a deferment of the tax, as the balance is deducted from the acquisition or production cost of the reinvested tangible fixed assets for purposes of the respective depreciation (see example in section 8.2.9.3 of the IRPC Manual).

Whenever there is the intention to reinvest the realized value, the taxable person must mention this in the annual income tax return of the year of realisation and prove the reinvestment made in the return on accounting and fiscal information of the subsequent three financial years.

16

When prepayments are made and expenditure (eg. Insurance) is paid for the year, do we recognise the IVA on the full prepayment when we recognise the expense or when we make the payment?

VAT is not recognized when a provision for a payment is created, but when the expense is invoiced, even if not immediately paid. However, input VAT shall be recognized and deducted on the full amount invoiced independently of the payment.

Please note that the operations carried out by insurance and reinsurance companies and brokers as well as other insurance intermediaries are exempt from VAT pursuant to paragraph 6 of Article 9 of CIVA.

17

When are scanned copies acceptable for IVA claims, in some cases we have one original and Customs, the bank, and finanças want the same original?

The original documents supporting accounting records must be kept on file for 10 years and could not, under any circumstances, be delivered to third parties. Photocopies will be made available and if required they can be authenticated by a Notary.

18

Do professional fees also include legal fees paid to attorneys? What other types expenses qualify as professional fees?

The professional fees are charges for services provided by natural or legal professionals such as lawyers, architects, engineers, accountants, etc., since they are not dependant employees of the company.

Payments of this nature are recorded in the 6.3.2.2.5 "Fees" (PGC PE).

19

Is there a policy in respect to invoices and the currency requirements? Do invoices from national creditors needs to be in Meticais and expense paid in Meticais?

For all domestic transactions it is mandatory for billing in the official language and currency (Portuguese and Meticais), pursuant to paragraph 5 of Article 106 of Law No. 2 / 2006 of 22 March.

20

Any invoices from international creditors, either in dollars or rands, will be recorded in source currency and converted to functional currency. What is the rate that is used? Can we set a rate and revalue on a monthly basis? Must we use the daily rate or average over a set period of time?

Debtors invoices:

Can we invoice in USD and Kwanza to national clients?

Requirements that need to be complied with when invoicing abroad?

Invoices received denominated in foreign currency relating to external supplies, should be recorded at the exchange at the date of the transaction. The carried amount can be or not updated whenever the company intends to and shall be based on the exchange rate of that date. However, at least, at the balance sheet date receivables and payable balances denominated in foreign currency shall be updated at the exchange rate prevailing on the balance sheet date.

Requirements to comply with the invoice issuing process:

- Compliance with deadlines – not later than the fifth business day after the time when the goods were made available to the purchaser or the services were finalised. Where monthly invoices are used, based on delivery notes, the processing thereof may not exceed the fifth business day subsequent to the period to which they relate;
- At least issued in duplicate – original to the client and copy for supplier filing purposes;
- Numbering must be sequential;
- When goods are returned, the invoice shall not be cancelled. In this case an advice or note of return shall be issued reversing the former tax previously invoiced;
- When the taxable transactions are undertaken within the national territory the invoices shall be issued in Portuguese and priced in Meticais. However, a bilingual and double currency invoice is not prohibited.
- Invoicing abroad may be issued in foreign currency and language. A translation in Portuguese language shall be attached when required.
- Invoices processed by a computer shall be communicated to the respective Tax Department and contain the information “processada por computador” (processed by computer)

21

What information must appear on an invoice from creditors to turn it a valid invoice?

The invoice should contain the following information:

- Sequential number (printed by an authorised printer, unless processed by a computer);
- Date of issue;
- Indication of original or copies, as applicable;
- Complete identification of the supplier (Name, address, and NUIT - tax identification number of taxable person);

- Complete identification of the recipient (Name, address, and NUIT - tax identification number of taxable person);
- Quantities and description of goods supplied or services rendered;
- Specific note on returnable packaging “not for sale”, if applicable;
- Unit sale price of supplied goods or rendered services, excluding VAT;
- Total price of the goods supplied and services rendered, excluding VAT (taxable amount);
- VAT rate;
- Output VAT obtained by applying the rate to the taxable amount;
- Invoices or equivalent documents (other than processed by computer) printed by authorised printers shall contain information by which to identify the printer, namely the trading name, address information, number of the license issued by the Ministry of Finances and tax identification number;
- Reasons for not applying the tax, if this is the case:
  a) Exemption Scheme: *“IVA – Regime de Isenção”* (VAT – Exemption Scheme);
  b) Simplified taxation Scheme: *“IVA – Não confere direito à dedução”* (VAT- not giving rise to deduction);
  c) Scheme applicable to travel agencies and tour operators: “IVA incluído” (VAT included);
  d) Scheme applicable to second hand goods – *“IVA – Bens em Segunda Mão”* (VAT – second hand goods);
  e) Scheme applicable to auctioneers – *“IVA – Regime específico de vendas em leilão”* (VAT – Specific scheme applicable for sales in auction)
  f) Special chargeability scheme applicable to contractors and subcontractors of civil works: “*IVA exigível e dedutivel no pagamento”* (VAT chargeable and deductible on payment)
  g) Supplies of goods and services exempt. It is advisable to mention: “*Isento de IVA ao abrigo do n. … do art… do CIVA”* (VAT exempt by p… of art…of VATC).

22 How can we treat over and under recoveries? To which account can we put these?

Receipts or payments to the State as a result of **tax adjustments** should be treated for accounting as follows:

- In the case of income tax
  - Refund requested and received:

    It is assumed that the value of the claim is carried forward in the subsidiary accounts of the account 4.4.1. Income Tax, the refund was requested by the taxpayer and the value refunded by the State. Thus, the receipt will be recorded as follows:

Debit: 1.2.1 Deposits held on call

Credit: 4.4.1…. (as appropriate) Income tax

- Additional payments owed to the State

  At the closing date of the reporting period, the taxable person assesses the estimated tax payable on the basis of information contained in M/22. This estimate should be recognized in financial statements for the period.

  Assuming that the estimated tax amounts to 100,000 MT, it will be recorded as follows:

Debit:	8.5	Income tax	100.000 MT
Credit::	4.4.1.1	Tax estimate	100.000 MT

  Assuming that this estimate, due to later corrections is not sufficient and it is necessary to pay an additional amount of 20,000 MT. The payment of the full tax due must be recorded as follows:

Debit:	4.4.1.1	Tax estimate	100.000 MT
Debit:	5.8.1	Other changes in equity - Income tax	20.000 MT
Credit:	1.2.1	Deposits held on call	120.000 MT

  If the correction gives rise to the debt interest arrears, should the payment of the value brought to account 6.9.1.6 Interest of default payments and compensatory, as follows:

  Debit: 6.9.1.6 Interest of default payments and compensatory
  Credit: 1.2.1 Deposits held on call

  Please note that such interest is not deductible for tax purposes.

- In the case of other taxes not related to income (VAT, municipal taxes, etc):

  - Refund requested and received

    It is assumed that the value of the claim is carried forward in the accounts 4.4.3.9 or 4.4.5 in the case of VAT or other taxes, respectively, the refund was requested by the taxpayer and the value refunded by the State. Thus, the receipt will be recorded as follows:

    Debit: 1.2.1 Deposits held on call
    Credit: 4.4.3.9 VAT requested refunds
    or
    Credit: 4.4.5 Tax adjustments, contributions and other levies (taxes other than VAT)

  - Additional payments owed to the State (other than VAT)

    Debit: 6.8.2...(as appropriate)
    Credit: 4.4.5 Tax adjustments, contributions and other levies

    Debit: 4.4.5 Tax adjustments, contributions and other levies
    Credit: 1.2.1 Deposits held on call

  - The monthly VAT adjustments in favor of the taxpayer or to the State are recorded in *4.4.3.4 - VAT adjustments* by counterpart of the accounts that led to the adjustment. The balance in this account is transferred to the account *4.4.3.5 - VAT assessment* and then *to 4.4.3.7 - VAT payable* or 4.*4.3.8 VAT recoverable*. In the case of claim for refund the balance in *4.4.3.8 - VAT recoverable* is transferred to the account *4.4.3.9 - VAT requested refunds*.

23 How should we treat realised and unrealised gains and losses? Which accounts are applicable?

PGC PE defines that exchange differences arising on the translation of receivables and payables by applying the exchange rate at the balance sheet date are recognized in the income statements. However, unrealised exchange gains or losses are not considered as gains or losses for tax purposes. Therefore, they must be distinguished from the realised exchange differences, using the following accounts:

(i) When unfavorable:

6.9.4 - Foreign exchange losses

6.9.4.1 Realised
6.9.4.2 Unrealised

(ii) When favorable:

7.8.4 - Foreign exchange gains

7.8.4.1 Realised
7.8.4.2 Unrealised

24 Is the PGA going to be aligned to the IFRs and what's the time frame like?

PGC PE is a standard which structure is based on the accounting concepts provided in the PGC NIRF, which in turn is aligned with the IFRS. However, it establishes a set of rules for recognition, measurement and presentation of very easy application and simple understanding.

PGC PE comes into force on January 1, 2011.

25 Does one have to be only a Mozambican national to sign off the accounts for the purposes of *Finanças*?

It is not necessary that the accountant has Mozambican nationality, but all professionals need to be licensed by the Ministry of Finance, as established by Ministerial Decree 159/87 of December 23.

26 Is one allowed to do the statutory books electronically e.g. Razão, Acta?

No. There is a draft law to that effect, but not yet approved.

9. LIST OF APPLICABLE LEGISLATION

Decree nº 70/2009, dated 22th of December
Approves the current General Chart of Accounts - *Plano Geral de Contabilidade (PGC PE)*

Decree nº 36/2006, dated 21st of September
Approves the General Chart of Accounts - *Plano Geral de Contabilidade (PGC)*.

Law nº 34/2007, dated 31st of December
Approves the new text of the Corporate Income Tax Code applicable to income during the year of 2008 and subsequent, whilst the Decree 21/2002, 30th July is revoked.

Decree nº 9/2008, dated 16th of April
Approves the Regulation of Corporate Tax Income Code applicable to income obtained during fiscal years 2008 and subsequent, and revokes all the legislation that contradicts it.

Law nº 20/2009, dated 10 th of September
Amends articles 18º, 20º, 21º, 22º, 24º, 26º, 28º, 36º and 40º; eliminates the line h) of art. 68º and introduces articles 36º-A and 41º-A in the IRPC Code, approved by Law nº 34/2007, of 31st Dezembro.

Decree nº 68/2009, dated 11st December
Amends article 5 of IRPC Regulation approved by Decree nº9/2008 of 16 th April.

Ministerial Order (*Portaria*) nº 20 817, dated 27th of January of 1968
Table of annual rates of depreciation referred in p. 5, article 26th of IRPC Code.

10. REFERENCES

Besides the legislation listed in the previous chapter:

Rodrigues, João – *SNC– Sistema de Normalização Contabilística Explicado* – Porto Editora - Porto, Outubro 2009.