Decree approving the Accounting system for the Business Sector in Mozambique

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If you would like to report a translation error or inaccuracy, please contact us to info@deloitte.co.mz.
Decree no. 70/2009  
Dated 22 December 2009

In making it necessary to adopt an Accounting System for the Business Sector in Mozambique, aimed at the adoption of a Chart of Accounts based on International Financial Reporting Standards applicable to large and medium sized enterprises, and the introduction of certain adjustments in the Chart of Accounts in force approved by Decree no. 36/2006 of 25 July for the remaining companies, provided by the powers given in f), paragraph 1 of Article 204 of the Constitution of the Republic, the Council of Ministers decrees:

Article 1  
(Approval and Subject)

1. The Accounting System for the Business Sector in Mozambique is approved, abbreviated referred to SCE, attached to this Decree being an integral part.

2. This Decree is to establish the Accounting System for the Business Sector in Mozambique which includes:
   a) The Chart of Accounts for Large and Medium Sized Companies, abbreviated as PGC-NIRF, included in Title I of the SCE;
   b) The Chart of Accounts for small companies and others, abbreviated as PGC-PE, contained in Title II of the SCE.

3. For the purposes of this Decree the abbreviation PGC-NIRF shall apply to the Chart of Accounts, based on International Financial Reporting Standards for large and medium size companies and by the PGC-PE the Chart of Accounts for the small and other companies.

Article 2  
(Scope)

1. The PGC-NIRF applies to all large and medium sized companies meeting the definitions contained in paragraphs 2 and 3 below.

2. For the purposes of PGC-NIRF, the following are considered to be large companies:
   a) Public companies or companies with a majority of public equity;
   b) 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;

   (a) Commercial companies, which are of any of the types mentioned in the Commercial Code, which exceed, based on their individual annual financial statements, one of the following categories:
       (i) Total income and gains equal to or greater than 1275 million Meticais;
       (ii) Total net assets equal to or greater than 1275 million Meticais;
       (iii) Average annual number of employees equal to or greater than 500 employees.

3. For PGC-NIRF purposes, the following are considered to be medium sized companies:
   a) Those that do not fit in a) and b) above; and
   b) commercial companies of any of the types mentioned in the Commercial Code that fall, based on their individual annual financial statements, into one of the following categories:
       (i) Total income and gains equal to or greater than 500 million Meticais but less than 1275 million Meticais;
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(ii) Total net assets equal to or greater than 500 million Meticais but less than 1275 million Meticais; or

(iii) Average annual number of employees equal to or greater than 250 but less than 500 employees.

4. The PGC-PE is mandatory for all companies that fall within the scope of implementation of the Chart of Accounts, approved by Decree No. 36/2006 of 25 July, and not fall into any of the categories described in the paragraphs above.

5. Instances provided for in paragraph c) of paragraph 2 and sub paragraph b) of paragraph 3 of this Article, the application of the PGC-NIRF becomes mandatory for the accounting period following that in which any of the limits mentioned therein have been exceeded.

6. From the first accounting period in which there is an excess of the limits mentioned in paragraph c) paragraph 2 and sub paragraph b) of paragraph 3 of this article, the application of the PGC-NIRF is mandatory for a consecutive period of 3 years, regardless of no longer meeting the criteria established.

7. Where a company that would apply the PGC-NIRF has ceased to meet the criteria set in c) of paragraph 2 and sub paragraph b) of paragraph 3 of this article, may only implement the PGC-PE if for 3 consecutive years, it has not observed any of these limits.

8. Any company wishing to implement the PGC-NIRF, even if clearly does not fits the requirement provided in paragraph 1 of this article may do so for a minimum period of 3 consecutive years, by providing this fact in writing to the respective Directorate for Fiscal Area authority.

Article 3

(Exclusion)

1. The Accounting System for the Business Sector in Mozambique does not apply to institutions and companies in the banking and insurance sectors subject to Chart of Accounts for the banking and insurance activities whose are ruled by their own legislation.

2. Where an institution or company referred to in the preceding paragraph incorporate in its consolidated accounts investments in other entities not subject to the Chart of Accounts for the banking and insurance activities, these entities should apply the SCE.

Article 4

(Accounting Standards)

The review, adjustment, interpretation and updating of the Accounting System for the Business Sector in Mozambique is the responsibility of a Regulatory Board of the Accounting Standards, to be created no later than 180 days from the date of publication of this Decree, by proposal of the Minister that oversees the area of Finance.

Article 5

(Reference to the PGC)

References to the Chart of Accounts (PGC), approved by Decree No. 36/2006 of 25 July, included in legislation, regulations and other official documents, should now be understood, where applicable and mutatis mutandis, as references extended to the Accounting System for Business Sector in Mozambique.

Article 6

(Entry into force)

1. The PGC-NIRF, contained in Title I of the SCE, attached to this Decree shall enter into force:

   (a) For large companies, as defined in paragraph 2 of Article 2 of this Decree, in the year beginning on January 1, 2010;
(b) For medium sized companies, as defined in paragraph 3 of Article 2 of this Decree, in the year commencing on 1 January 2011.

2. The PGC-PE, contained in Title II of the Accounting System for the Business Sector in Mozambique attached to this Decree, shall enter into force on the year beginning on 1 January 2011.

3. Where the financial year of a company does not coincide with the calendar year, the entry into force referred to in paragraphs 1 and 2 above is apparent from the first day of the month in which to start their financial year.

Article 7

(Transitional provision)

Decree No. 36/2006 of 25 July remains in force until the beginning of application of any of the Charts of Accounts mentioned in the preceding article and as provided therein after which it should be considered revoked.

Approved by the Council of Ministers on 3 November, 2009.

To be published.

The Prime Minister, Luisa Dias Diogo.
Accounting System for the Business Sector in Mozambique
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CHAPTER 1.1 - INTRODUCTION TO PGC-NIRF
1. The new Chart of Accounts on the basis of International Financial Reporting Standards (hereinafter referred to PGC-NIRF), is a set of principles, rules and procedures that they form the accounting standards applicable in Mozambique to the entities that the government determines through a statute.

2. As the name implies, the PGC-NIRF is a body of rules based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the IASB (International Accounting Standards Board). The IASs and IFRSs as well as the underlying conceptual framework and all interpretations are often subject to change over time as a result of the constant changes in economic conditions and the emergence of new business, circumstances which give rise to review existing standards or prepare new standards. For the purposes of PGC-NIRF the conceptual framework and international standards as a basis for their preparation are those that were in force until October 2008.

3. The texts of Accounting and Financial Reporting Standards (NCRF) listed in this new Chart of Accounts were prepared to offer its users the same interpretation is given by the IAS's and IFRS's issued by the IASB that they are based. However, the NCRFs are not an official or full translation of IASs and IFRSs issued by the IASB and therefore the consultation and use of NCRFs do not exempt, when appropriate, the reading of international standards that served as the basis as well as any changes that may have been made, in the meanwhile, in those International Standards.

4. Consistently, the PGC-NIRF is divided into three distinct groups of subjects: a first group, more conceptual, which includes Chapters 1.2 to 1.4; another group, more practical, comprising Chapters 1.5 and 1.6, and a third group, which is more informative, which includes Chapters 1.7 and 1.8.

5. Chapter 1.2 is devoted to the conceptual framework and is one of the most important parts of this new framework. In fact, the whole structure of the NCRFs developed in Chapter 1.4 is based on the concepts in this chapter that in this respect is very close to the conceptual structure defined by the IASB. Chapter 1.3 is devoted to establishing the transition rules for entities applying for the first time the PGC-NIRF and it is also crucial because it has implications for more than one fiscal year. Chapter 1.4 contains the set of NCRFs to be taken at the recognition, measurement, presentation and disclosure of future transactions and events.

6. Chapter 1.5 includes two chart of accounts (one synthetic and one detailed) which must be compulsory applied but with sufficient margin to enable various entities to adapt to their businesses. Chapter 1.6 covers the mandatory forms of financial statements prepared in accordance with the recognition, measurement, presentation and disclosure required by NCRFs.

7. Chapter 1.7 includes a glossary of terms and expressions used in the NCRFs to facilitate a common interpretation and no doubt for users. Finally, Chapter 1.8 is a table of derivation between the NCRFs, the corresponding IAS’s and IFRS’s for consultation when applicable.
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INTRODUCTION

Purpose

1. This Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. The purpose of the Conceptual Framework is to:
   (a) Assist preparers of financial statements in applying PGC-NIRF;
   (b) Assist auditors in forming an opinion as to whether financial statements conform with PGC-NIRF;
   (c) Assist users of the financial statements in interpreting the information contained in financial statements prepared in conformity with PGC-NIRF.

2. This Conceptual Framework is not an Accounting and Financial Reporting Standard and hence does not override any Accounting and Financial Reporting Standard included in PGC-NIRF. If in any particular circumstance there is a conflict of understanding between this Conceptual Framework and one Accounting and Financial Reporting Standard contained in PGC-NIRF, the Standard will prevail over the Conceptual Framework.

Scope

3. The Conceptual Framework deals with:
   (a) The objective of financial statements;
   (b) The qualitative characteristics that determine the usefulness of information in financial statements;
   (c) The definition, recognition, and measurement of the elements from which financial statements are constructed; and
   (d) Concepts of capital and capital maintenance.

4. This Conceptual Framework is concerned with general purpose financial statements (hereafter referred to as “financial statements”). Such financial statements, including consolidated financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users. Some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements. However, the most of these users have to rely on the financial statements as their major source of financial information and such financial statements should, therefore be prepared and presented with their need in view.

5. Special purposes financial reports, for example, returns and computations prepared for taxation purposes are outside of the scope of this Conceptual Framework.

6. Financial statements form part of the process of financial reporting. A complete set of financial statements normally includes a balance sheet, an income statement, a statement of cash flows, a statement of changes in equity and those notes and other statements and explanatory material that are an integral part of the financial statements. (Together known as “Explanatory Notes). Financial statements do not, however, include such items as reports by directors, discussion and analysis by management and similar items that may be included in a financial or annual report of the entity.

Users and their information needs

7. In order to satisfy some of their different needs for information the users of financial statements include present and potential investors, employees, lenders, suppliers, customers, governments and their agencies
TITLE I – CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.2 – CONCEPTUAL FRAMEWORK

and the public. These different needs include the following:

(a) **Investors.** The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell those investments. Shareholders are also interested in information, which enables them to assess the ability of the entity to pay dividends.

(b) **Employees.** Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information, which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities.

(c) **Lenders.** Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.

(d) **Suppliers.** Suppliers and other trade creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due.

(e) **Customers.** Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity.

(f) **Governments and their agencies.** Governments and their agencies are interested in the allocation of resources and, therefore, the activities of entities. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics.

(g) **Public.** Entities affect members of the public in a variety of ways. For example, entities may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities.

8. While financial statements cannot meet all of the information needs of these users, there are needs, which are common to all users. For example, as investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

9. The management of an entity has the primary responsibility for the preparation and presentation of the financial statements of the entity. Management is also interested in the information contained in the financial statements even though it has access to additional management and financial information that helps it carry out its planning, decision making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs. The reporting of such information, however, is beyond the scope of this Conceptual Framework.

THE OBJECTIVE OF FINANCIAL STATEMENTS

10. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

11. Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non financial information.
12. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the entity or whether to reappoint or replace the management.

Financial position, performance and changes in financial position

13. The economic decisions that are taken by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation. This ability ultimately determines, for example, the capacity of an entity to pay its employees and suppliers, meet interest payments, repay loans and make distributions to its owners. Users are better able to evaluate this ability to generate cash and cash equivalents if they are provided with information that focuses on the financial position, performance and changes in financial position of an entity.

14. The financial position of an entity is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates. Information about the economic resources controlled by the entity and its capacity in the past to modify these resources is useful in predicting the ability of the entity to generate cash and cash equivalents in the future. Information about financial structure is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the entity; it is also useful in predicting how successful the entity is likely to be in raising further finance. Information about liquidity and solvency is useful in predicting the ability of the entity to meet its financial commitments as they fall due. Liquidity refers to the availability of cash in the near future after taking account of financial commitments over this period. Solvency refers to the availability of cash over the longer term to meet financial commitments as they fall due.

15. Information about the performance of an entity, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the entity to generate cash flows from its existing resource base. It is also useful in forming judgements about the effectiveness with which the entity might employ additional resources.

16. Information concerning changes in the financial position of an entity is useful in order to assess its operating, investing, and financing activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. In constructing a statement of changes in financial position, funds can be defined in various ways, such as all financial resources, working capital, liquid assets or cash. No attempt is made in this Conceptual Framework to specify a definition of funds.

17. Information about financial position is primarily provided in a balance sheet. Information about performance is primarily provided in an income statement. Information about changes in financial position is provided in the financial statements by means of a separate statement.

18. The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position.

19. The financial statements also contain explanatory notes. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may include disclosures about the risks and uncertainties affecting the entity and any resources and
obligations not recognised in the balance sheet (such as mineral reserves). Information about geographical and industry segments and the effect on the entity of changing prices may also be provided in the form of supplementary information.

UNDERLYING ASSUMPTIONS

Accrual basis

20. In order to meet their objectives, 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 or its equivalent 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. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

Going concern

21. 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.

QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

22. 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

23. An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

Relevance

24. 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.

25. The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavour to predict the ability of the entity to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the entity would be structured or the outcome of planned operations.

26. Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the entity to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to
make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed.

Materiality

27. 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. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the entity irrespective of the materiality of the results achieved by the new segment in the reporting period. 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.

28. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reliability

29. 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.

30. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the entity to recognise the full amount of the claim in the balance sheet, although it may be appropriate to disclose the amount and circumstances of the claim.

Faithful representation

31. 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.

32. Most financial information is subject to some risk of not being (or being less than) a faithful representation of that which it purports to portray. This is not due to errors or bias, but rather to inherent difficulties either in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that can convey messages that correspond with those transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that entities generally would not recognise them in the financial statements. For example, although most entities generate goodwill internally over time, it is usually difficult to identify or measure that goodwill reliably. In other cases, however, it may be relevant to recognise items and to disclose the risk of error surrounding their recognition and measurement.

Substance over form

33. 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. For example, an entity may dispose of an asset to another party in such a way that the documentation purports to pass legal ownership to that party; nevertheless, agreements may exist that ensure that the entity continues to enjoy the future economic
benefits embodied in the asset. In such circumstances, the reporting of a sale would not represent faithfully the transaction entered into being questionable if indeed there was a transaction.

**Neutrality**

34. 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.

**Prudence**

35. 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.

**Completeness**

36. 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**

37. 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. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.

38. An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same entity from period to period and by different entities. Compliance with Financial Accounting and Reporting Standards, including the disclosure of the accounting policies used by the entity, helps to achieve the qualitative characteristic of comparability.

39. The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an entity to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for an entity to leave its accounting policies unchanged when more relevant and reliable alternatives exist.

40. 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.
Constraints on relevant and reliable information

*Timeliness*

41. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the economic decision making needs of users.

*Balance between benefit and cost*

42. The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgemental process. Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information is prepared. For example, the provision of further information to lenders may reduce the borrowing costs of an entity. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, standard setters in particular, as well as the preparers and users of financial statements, should be aware of this constraint.

*Balance between qualitative characteristics*

43. In practice, a balancing between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgement.

*True and fair view/fair presentation*

44. Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an entity. Although this Conceptual Framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information.

**THE ELEMENTS OF FINANCIAL STATEMENTS**

45. 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 termed 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. The statement of changes in financial position usually reflects income statement elements and changes in balance sheet elements; accordingly, this Conceptual Framework identifies no elements that are unique to this statement.

46. The presentation of these elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be classified by their nature or function in the business of the entity in order to display information in the manner most useful to users for purposes of making economic decisions.
Financial position

47. The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

   (a) 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.

   (b) 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.

   (c) Equity is the residual interest in the assets of the entity after deducting all its liabilities.

48. The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognised in the balance sheet. Thus, the definitions embrace items that are not recognised as assets or liabilities in the balance sheet because they do not satisfy the criteria for recognition discussed in paragraphs 80 to 96. In particular, the expectation that future economic benefits will flow to or from an entity must be sufficiently certain to meet the probability criterion in paragraph 83 before an asset or liability is recognised.

49. In assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality and not merely its legal form. Thus, for example, in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge. Hence, the finance lease gives rise to items that satisfy the definition of an asset and a liability and are recognised as such in the lessee’s balance sheet.

Assets

50. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.

51. An entity usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers; because these goods or services can satisfy these wants or needs, customers are prepared to pay for them and hence contribute to the cash flow of the entity. Cash itself renders a service to the entity because of its command over other resources.

52. The future economic benefits embodied in an asset may flow to the entity in a number of ways. For example, an asset may be:

   (a) used singly or in combination with other assets in the production of goods or services to be sold by the entity;

   (b) exchanged for other assets;

   (c) used to settle a liability;

   (d) distributed to the owners of the entity.

53. Many assets, for example, land, property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; hence, patents and copyrights, for example, are assets if
54. Many assets, for example, receivables, land and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits, which are expected to flow from the property. Although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an entity controls the benefits that are expected to flow from it.

55. The assets of an entity result from past transactions or other past events. Entities normally obtain assets by purchasing or producing them, but other transactions or events may generate assets; examples include land received by an entity from government as part of a programme to encourage economic growth in an area and the discovery of mineral deposits. Transactions or events expected to occur in the future do not in themselves give rise to assets; hence, for example, an intention to purchase inventory does not, of itself, meet the definition of an asset.

56. There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet; for example, items that have been donated to the entity may satisfy the definition of an asset.

Liabilities

57. An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an entity decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities.

58. A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of an entity to acquire assets in the future does not, of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the entity enters into an irrevocable agreement to acquire the asset. In the latter case, the irrevocable nature of the agreement means that the economic consequences of failing to honour the obligation, for example, because of the existence of a substantial penalty, leave the entity with little, if any, discretion to avoid the outflow of resources to another party.

59. The settlement of a present obligation usually involves the entity giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a present obligation may occur in a number of ways, for example, by:

(a) payment of cash;
(b) transfer of other assets;
(c) provision of services;
(d) replacement of that obligation with another obligation; or
(e) conversion of the obligation to equity.
60. An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

61. Liabilities result from past transactions or other past events. Thus, for example, the acquisition of goods and the use of services give rise to trade payables (unless paid for in advance or on delivery) and the receipt of a bank loan results in an obligation to repay the loan. An entity may also recognise future rebates based on annual purchases by customers as liabilities; in this case, the sale of the goods in the past is the transaction that gives rise to the liability.

62. Some liabilities can be measured only by using a substantial degree of estimation. Some entities describe these liabilities as provisions. When a provision involves a present obligation and satisfies the definition of a liability contained in paragraph 47 such provision is considered as a liability even if the amount has to be estimated. Examples include provisions for payments to be made under existing warranties and provisions to cover pension obligations.

**Equity**

63. Although equity is defined in paragraph 47 as a residual value, it may be sub-classified in the balance sheet. For example, in a corporate entity, share capital, retained earnings, reserves representing appropriations of retained earnings and reserves representing capital maintenance adjustments may be shown separately. Such classifications can be relevant to the decision making needs of the users of financial statements when they indicate legal (or other) restrictions on the ability of the entity to distribute or otherwise apply its equity. They may also reflect the fact that parties with ownership interests in an entity have differing rights in relation to the receipt of dividends or the repayment of contributed equity.

64. The creation of reserves is sometimes required by statute or other law in order to give the entity and its creditors an added measure of protection from the effects of losses. Other reserves may be established if national tax law grants exemptions from, or reductions in, taxation liabilities when transfers to such reserves are made. The existence and size of these reserves is information that can be relevant to the decision making needs of users. Transfers to such reserves are appropriations of retained earnings rather than expenses.

65. The amount at which equity is shown in the balance sheet is dependent on the measurement of assets and liabilities. Normally, the aggregate amount of equity only by coincidence corresponds with the aggregate market value of the shares of the entity or the sum that could be raised by disposing of either the net assets on a piecemeal basis or the entity as a whole on a going concern basis.

66. Commercial, industrial and business activities are often undertaken by means of entities such as sole proprietorships, partnerships and trusts and various types of government business undertakings. The legal and regulatory framework for such entities is often different from that applying to corporate entities. For example, there may be few, if any, restrictions on the distribution to owners or other beneficiaries of amounts included in equity. Nevertheless, the definition of equity and the other aspects of this Conceptual Framework that deal with equity are appropriate for such entities.

**Performance**

67. 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. The recognition and measurement of income and expenses, and hence profit, depends in part on the concepts of capital and capital maintenance used by the entity in preparing its financial statements. These concepts are discussed in paragraphs 100 to 108.

68. The elements of income and expenses are defined as follows:

(a) **Income** is increases in economic benefits during the accounting period in the form of
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inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants; and

(b) Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

69. The definitions of income and expenses identify their essential features but do not attempt to specify the criteria that would need to be met before they are recognised in the financial statements. Criteria for the recognition of income and expenses are discussed in paragraphs 90 to 96.

70. Income and expenses may be presented in the income statement in different ways so as to provide information that is relevant for economic decision making. For example, it is common practice to distinguish between those items of income and expenses that arise in the course of the ordinary activities of the entity and those that do not. This distinction is made on the basis that the source of an item is relevant in evaluating the ability of the entity to generate cash and cash equivalents in the future; for example, incidental activities such as the disposal of a long-term investment are unlikely to recur on a regular basis. When distinguishing between items in this way consideration needs to be given to the nature of the entity and its operations. Items that arise from the ordinary activities of one entity may be unusual in respect of another.

71. Distinguishing between items of income and expense and combining them in different ways also permits several measures of entity performance to be displayed. These have differing degrees of inclusiveness. For example, the income statement could display gross margin, profit or loss from ordinary activities before and after taxation, and net profit or loss.

Income

72. 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.

73. 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. Gains represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in this Conceptual Framework.

74. Gains include, for example, those arising on the disposal of non-current assets. The definition of income also includes unrealised gains; for example, those arising on the revaluation of marketable securities and those resulting from increases in the carrying amount of long-term assets; for example, those arising on the revaluation of tangible assets. When gains are recognised in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Gains are often reported net of related expenses.

75. Various kinds of assets may be received or enhanced by income; examples include cash, receivables and goods and services received in exchange for goods and services supplied. Income may also result from the settlement of liabilities. For example, an entity may provide goods and services to a lender in settlement of an obligation to repay an outstanding loan.

Expenses

76. 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.
77. 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. Losses represent decreases in economic benefits and as such, they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this Conceptual Framework.

78. Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealised losses, for example, those arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowing of an entity in that currency. When losses are recognised in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Losses are often reported net of related income.

Capital maintenance adjustments

79. The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead, these items are included in equity as capital maintenance adjustments or revaluation reserves. These concepts of capital maintenance are discussed in paragraphs 100 to 108 of this Conceptual Framework.

RECOGNITION OF THE ELEMENTS OF FINANCIAL STATEMENTS

80. Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in the next paragraph. It involves the depiction of the item in words and by a monetary amount and the inclusion of that amount in the balance sheet or income statement totals. Items that satisfy the recognition criteria should be recognised in the balance sheet or income statement. The failure to recognise such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material.

81. An item that meets the definition of an element should be recognised if:

(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured with reliability.

82. In assessing whether an item meets these criteria and therefore qualifies for recognition in the financial statements, regard needs to be given to the materiality considerations discussed in paragraphs 27 and 28. The interrelationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, income or a liability.

The probability of future economic benefit

83. The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. The concept is in keeping with the uncertainty that characterises the environment in which an entity operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence available when the financial statements are prepared. For example, when it is probable that a receivable owed to an entity will be paid, it is then justifiable, in the absence of any evidence to the contrary, to recognise the receivable as an asset. For a large population of receivables, however, some degree of non-payment is normally considered probable; hence, an expense representing the expected reduction in economic benefits is recognised.
Reliability of measurement

84. The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability as discussed in paragraphs 29 to 36 of this Conceptual Framework. In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made the item is not recognised in the balance sheet or income statement. For example, the expected proceeds from a lawsuit may meet the definitions of both an asset and income as well as the probability criterion for recognition; however, if it is not possible for the claim to be measured reliably, it should not be recognised as an asset or as income; the existence of the claim, however, would be disclosed in the notes, explanatory material or supplementary schedules.

85. An item that, at a particular point in time, fails to meet the recognition criteria in paragraph 81 may qualify for recognition at a later date as a result of subsequent circumstances or events.

86. An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of an entity by the users of financial statements.

Recognition of assets

87. An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

88. An asset is not recognised in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period. Instead, such a transaction results in the recognition of an expense in the income statement. This treatment does not imply either that the intention of management in incurring expenditure was other than to generate future economic benefits for the entity or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the entity beyond the current accounting period is insufficient to warrant the recognition of an asset.

Recognition of liabilities

89. A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognised as liabilities in the financial statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.

Recognition of income

90. Income is recognised in the income statement when increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the settlement of a debt payable).

91. The procedures normally adopted in practice for recognising income, (for example, the requirement that revenue should be earned), are applications of the recognition criteria in this Conceptual Framework. Such procedures are generally directed at restricting the recognition as income to those items that can be
measured reliably and have a sufficient degree of certainty.

**Recognition of expenses**

92. Expenses are recognised in the income statement when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlement or the depreciation of equipment).

93. Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events; for example, the various components of expense making up the cost of goods sold are recognised at the same time as the income derived from the sale of the goods. However, the application of the matching concept under this Conceptual Framework does not allow the recognition of items in the balance sheet, which do not meet the definition of assets or liabilities.

94. When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognised in the income statement on the basis of systematic and rational allocation procedures. This is often necessary in recognising the expenses associated with the using up of assets such as land, property, plant, equipment, goodwill, patents and trademarks; in such cases the expense is referred to as depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

95. An expense is recognised immediately in the income statement when expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.

96. An expense is also recognised in the income statement in those cases when a liability is incurred without the recognition of an asset, as when a liability under a product warranty arises.

**MEASUREMENT OF THE ELEMENTS OF FINANCIAL STATEMENTS**

97. 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.

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

   (a) **Historical cost** - Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. 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;

   (b) **Current cost** - Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently;

   (c) **Realisable (settlement) value** - Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash
or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business; and

(d) **Present value** - Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

99. The measurement basis most commonly adopted by entities in preparing their financial statements is historical cost. This is usually combined with other measurement bases. For example, inventories are usually carried at the lower of cost and net realisable value, marketable securities may be carried at market value and pension liabilities are carried at their present value. Furthermore, some entities use the current cost basis as a response to the inability of the historical cost accounting model to deal with the effects of changing prices of non-monetary assets.

**CONCEPTS OF CAPITAL AND CAPITAL MAINTENANCE**

**Concepts of capital**

100. A financial concept of capital is adopted by most entities in preparing their financial statements. Under a financial concept of capital, (such as, for example, invested money or invested purchasing power), capital is synonymous with the net assets or equity of the entity. Under a physical concept of capital, (such as, for example, operating capability), capital is regarded as the productive capacity of the entity based on, for example, units of output per day.

101. The selection of the appropriate concept of capital by an entity should be based on the needs of the users of its financial statements. Thus, a financial concept of capital should be adopted if the users of financial statements are primarily concerned in the nominal invested capital or the purchasing power of invested capital. If, however, the main concern of users is with the operating capability of the entity, a physical concept of capital should be used. The concept chosen indicates the goal to be attained in determining profit, even though there may be some measurement difficulties in making the concept operational.

**Concepts of capital maintenance and the determination of profit**

102. The concepts of capital in paragraph 100 give rise to the following concepts of capital maintenance:

(a) **Financial capital maintenance** - Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any contributions from and distributions to, owners during the period. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power; and

(b) **Physical capital maintenance** - Under this concept a profit is earned only if the physical productive capacity (or operating capability) of the entity or the resources or funds needed to achieve that capacity, at the end of the period, exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

103. The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entity’s return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have
been deducted from income. If expenses exceed income, the residual amount is a loss.

104. The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement. Selection of the basis under this concept is dependent on the type of financial capital that the entity is seeking to maintain.

105. The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the entity. In general terms, an entity has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required to maintain the capital at the beginning of the period is profit.

106. Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, profit represents the increase in nominal money capital over the period. Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains are, conceptually, profits. They may not be recognised as such, however, until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in terms of constant purchasing power units, profit represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as profit. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity.

107. Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the entity are viewed as changes in the measurement of the physical productive capacity of the entity; hence, they are treated as capital maintenance adjustments that are part of equity and not as profit.

108. The selection of the measurement bases and concept of capital maintenance will determine the accounting model used in the preparation of the financial statements. Different accounting models exhibit different degrees of relevance and reliability and, as in other areas, management must seek a balance between relevance and reliability.
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CHAPTER 1.3 – RULES FOR FIRST-TIME ADOPTION OF PGC - NIRF

INTRODUCTION

1. The current chapter establishes the rules and procedures required from an entity to comply with in the first accounting period when adopting PGC-NIRF. An entity is required to apply such rules and procedures to prepare its first financial statements in compliance with PGC - NIRF.

2. The objective of these rules and procedures is to ensure that an entity’s first financial statements under PGC - NIRF contain high quality information that:
   
   (a) is transparent for users and comparable over all periods presented;
   
   (b) provides a suitable starting point for accounting the transactions and other events in accordance PGC - NIRF; and
   
   (c) can be generated at a cost that does not exceed the benefits.

3. An entity’s first PGC - NIRF financial statements are the first annual financial statements in which the entity adopts this standard by an explicit and unreserved statement in those financial statements of compliance with PGC – NIRF.

RECOGNITION AND MEASUREMENT

Date of transition

4. The date of transition for PGC - NIRF adoption purposes is the first day of the earliest accounting period for which an entity presents full comparative information in its first financial statements preparation under PGC - NIRF.

Opening balance sheet

5. An entity shall prepare and present an opening balance sheet at the date of transition to PGC - NIRF This is the starting point for its accounting in accordance with PGC – NIRF and it shall be used as comparative balance sheet in the first financial statements prepared under PGC - NIRF.

Accounting policies

6. An entity shall use the same accounting policies in its opening balance sheet and throughout all periods presented in its first financial statements prepared under PGC - NIRF.

7. Except as described in paragraphs 9 to 25, an entity shall, in its opening PGC - NIRF balance sheet:
   
   (a) recognise all assets and liabilities whose recognition is required by PGC - NIRF;
   
   (b) not recognise items as assets or liabilities if PGC - NIRF do not permit such recognition;
   
   (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with PGC - NIRF; and
   
   (d) apply PGC - NIRF in measuring all recognised assets and liabilities.

8. The accounting policies that an entity uses in its opening balance sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to PGC - NIRF. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to PGC – NIRF.

EXCEPTIONS

9. The basic principle to present the opening balance sheet in the date of transition is that such presentation
shall comply with PGC – NIRF. However, the following exceptions shall apply:

(a) exemptions from some requirements of the standards; and
(b) prohibition of retrospective application of some aspects of the standards.

**Exemptions**

10. Given the practical situations in which an entity may encounter during the transition to the PGC - NIRF, the entity may elect to use one or more of the following exemptions:

(a) Business combinations;
(b) Fair value or revaluation as deemed cost;
(c) Employee benefits;
(d) Assets and liabilities in subsidiaries, associates and jointly controlled entities;
(e) Designation of previously recognised financial instruments;
(f) Borrowing costs.

**Business combinations**

11. An entity as a first-time adopter may elect not to apply NCRF 21 – Business combinations to past business combinations. However, if a first-time adopter elects to comply with NCRF 21 – Business combinations, it shall restate all later business combinations and shall also apply NCRF 20 - Investments in subsidiaries, associates and interests in joint ventures on jointly controlled entities from that same date.

12. If the entity does not apply NCRF 21 – Business combinations, retrospectively to a past business combination, this has the following consequences for that business combination:

(a) The entity shall keep the same classification as in its previous GAAP financial statements;
(b) The entity shall recognise all its assets and liabilities at the date of transition to PGC - NIRF that were acquired or assumed in a past business combination, other than some financial assets and financial liabilities derecognised in accordance with previous GAAP and assets, including goodwill, and liabilities that were not recognised in the acquirer’s consolidated balance sheet in accordance with previous GAAP and also would not qualify for recognition in accordance with PGC - NIRF in the separate balance sheet of the acquiree;
(c) The entity shall exclude from its opening balance sheet under PGC - NIRF any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under PGC – NIRF;
(d) PGC - NIRF require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The entity shall measure these assets and liabilities on that basis in its opening balance sheet under PGC - NIRF, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill;
(e) Immediately after the business combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with PGC - NIRF at that date;
If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening balance sheet under PGC - NIRF. Instead, the acquirer shall recognise and measure it in its consolidated opening balance sheet under PGC - NIRF on the basis that PGC - NIRF would require in the balance sheet of the acquiree. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under NCRF 21 – Business combinations, that asset or liability remains in goodwill unless PGC - NIRF would require its recognition in the financial statements of the acquiree;

The carrying amount of goodwill in the opening balance sheet under PGC - NIRF shall be its carrying amount in accordance with previous GAAP at the date of transition to PGC – NIRF.

No other adjustments shall be made to the carrying amount of goodwill at the date of transition to PGC – NIRF;

An entity as a first-time adopter of PGC - NIRF shall adjust the carrying amounts of the subsidiary’s assets and liabilities to the amounts that PGC - NIRF would require in the subsidiary’s balance sheet. The deemed cost of goodwill equals the difference, at the date of transition, between the parent’s interest in those adjusted carrying amounts; and

The measurement of non controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non controlling interests and deferred tax.

13. An entity may elect to measure an item of tangible asset at the date of transition to PGC - NIRF at its fair value and use that fair value as its deemed cost at that date.

14. An entity as first-time adopter may elect to use a previous GAAP revaluation of an item of tangible asset at, or before, the date of transition to PGC - NIRF as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) fair value; or

(b) cost or depreciated cost in accordance with PGC - NIRF, adjusted to reflect, for example, changes in a general or specific price index.

Employee benefits

15. In accordance with NCRF 19 - Employee benefits, an entity may elect to leave some actuarial gains and losses unrecognised based on the limits of 10% provided there. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to PGC - NIRF into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to PGC - NIRF even if it uses the approach referred to above for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.

Assets and liabilities in subsidiaries, associates and jointly controlled entities

16. If a subsidiary becomes a first-time adopter of PGC - NIRF later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:
(a) the carrying amounts that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to PGC - NIRF, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

(b) the carrying amounts required by PGC - NIRF, based on the subsidiary’s date of transition to these accounting standards. These carrying amounts could differ from those described in (a):

(i) when the exemptions established herein result in measurements that depend on the date of transition to PGC – NIRF;

(ii) when the accounting policies used in the subsidiary’s financial statements differ from those in the consolidated financial statements.

A similar election is available to an associate or joint venture that becomes a first-time adopter of PGC - NIRF later than an entity that has significant influence or joint control over it.

Designation of previously recognised financial instruments

17. NCRF 25 – Financial instruments permits a financial asset to be designated on initial recognition as available for sale or a financial instrument to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:

(a) an entity is permitted to make an available for sale designation at the date of transition to PGC – NIRF;

(b) an entity is permitted to designate, at the date of transition to PGC - NIRF, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the provided criteria in NCRF 25 – Financial instruments at that date.

Borrowing costs

18. A first-time adopter may apply the provisions set out in:

(a) NCRF 27 - Borrowing costs of the costs of borrowings related to eligible assets whose date of capitalisation start on or after the date of first application of the PGC – NIRF; or

(b) appoint a date preceding the date of first application of the PGC - NIRF and apply the principles contained in the NCRF 27 – Borrowing costs for all eligible assets whose date of capitalisation is on or after that date.

Prohibitions

19. During the transition to the PGC - NIRF, an entity can not retrospectively apply accounting policies that address the standards of the following:

(a) derecognition of financial assets and financial liabilities;

(b) hedge accounting;

(c) estimates; and

(d) non controlling interests.

Derecognition of financial assets and financial liabilities

20. A first-time adopter of the PGC - NIRF shall apply the derecognition requirements set out in NCRF 25 – Financial instruments prospectively.
Hedge accounting

21. As required by *NCRF 25 – Financial instruments*, at the date of transition to PGC - NIRF, an entity shall:
   (a) measure all derivatives at fair value; and
   (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

22. An entity shall not reflect in its opening PGC - NIRF balance sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with *NCRF 25 – Financial instruments*.

Estimates

23. An entity’s estimates in accordance with at the date of transition to PGC - NIRF shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

24. An entity may need to make estimates in accordance with PGC - NIRF at the date of transition that were not required at that date under previous GAAP. To achieve consistency with *NCRF 5 – Events after the balance sheet date*, those estimates in accordance with PGC - NIRF shall reflect conditions that existed at the date of transition. In particular, estimates at the date of transition to PGC - NIRF of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.

Non controlling interests

25. An entity shall apply the following requirements to the matters related to non controlling interests prospectively:
   (a) comprehensive income is attributed to the owners of the parent and to the non controlling interests even if this results in the non controlling interests having a deficit balance;
   (b) the requirements for accounting for changes in the parent’s ownership interest in a subsidiary that do not result in a loss of control; and
   (c) the requirements for accounting for a loss of control over a subsidiary.

PRESENTATION AND DISCLOSURE

Comparative information

26. To ensure compliance with *NCRF 1 – Presentation of Financial Statements*, an entity’s first PGC - NIRF financial statements shall include at least the financial statements of the previous accounting period prepared for comparative purposes according to the PGC - NIRF.

Explanation of transition to PGC - NIRF

27. An entity shall explain how the transition from previous GAAP to PGC - NIRF affected its reported financial position, financial performance and cash flows.

28. To comply with preceding paragraph, an entity shall disclose:
   (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with PGC - NIRF for both of the following dates:
      (i) the date of transition to PGC - NIRF; and
      (ii) the end of the latest period presented in the entity’s most recent annual financial statements in accordance with previous GAAP.
reconciliation to its total comprehensive income in accordance with PGC - NIRF for the latest period in the entity’s most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP: and

if the entity recognised or reversed any impairment losses for the first time in preparing its opening PGC - NIRF Balance Sheet, the disclosures that NCRF 18 - Impairment of assets would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to PGC - NIRF.

29. If an entity uses fair value in its opening PGC - NIRF Balance Sheet as deemed cost for an item of tangible asset, an investment asset or an intangible asset, the entity’s first PGC - NIRF financial statements shall disclose, for each line item in the opening Balance Sheet:

(a) the aggregate of those fair values; and

(b) the aggregate adjustment to the carrying amounts reported under previous GAAP.
CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

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NCRF 2 – Statement of cash flows
NCRF 3 – Earnings per share
NCRF 4 – Accounting policies, changes in accounting estimates and errors
NCRF 5 – Events after the balance sheet date
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OBJECTIVE

1. This Standard prescribes the basis and minimum requirements for presentation, structure and content of general purpose financial statements. Its objective is to ensure comparability both with the entity’s financial statements of previous periods and with the financial statements of other entities.

SCOPE

2. An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with PGC-NIRF.

3. The general purpose financial statements (the "financial statements") refer to whether the financial statements of a single entity (individual financial statements) or to the financial statements of a number of entities (the consolidated financial statements) and their preparation and presentation aimed at the common needs of information from a wide range of users.

4. The financial statements of an entity must be prepared and presented at least once a year. This Standard does not apply, however, to the interim financial statements whose structure and content are set in NCRF 8-Interim financial reporting.

FINANCIAL STATEMENTS

Purpose of financial statements

5. Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

6. To meet this objective, financial statements provide information about an entity’s on assets, liabilities, equity, income and expenses, cash flows and contributions by and to capital owners. This information, along with other information (for example, the notes to the financial statements), assists users of financial statements in predicting the entity’s future cash flows.

Complete set of financial statements

7. A complete set of financial statements comprises:

(a) a balance sheet;
(b) an income statement for the accounting period;
(c) a statement of changes in equity;
(d) a statement of cash flows for the period;
(e) notes, comprising a summary of significant accounting policies and other explanatory information; and
(f) a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

8. Most entities presents, in addition to the financial statements, reports and other information relating to the business of the entity and how it was developed to manage resources available to them. All reports and information outside financial statements, as defined in paragraphs above, are not part of the scope of this Standard.
Consolidated financial statements

9. A parent is required to prepare and present consolidated financial statements except where there are in full the following circumstances:
   (a) the parent is itself a wholly owned subsidiary, or is a partially owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
   (b) the parent’s debt or equity instruments are not traded in a public market (domestic or foreign stock exchange house);
   (c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
   (d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with PGC-NIRF.

10. A parent who is required to prepare and present consolidated financial statements as well as a parent that is not required to prepare and present consolidated financial statements elects to do so, must comply with the provisions and procedures contained in the consolidation NCRF 20 - Investments in subsidiaries, associates and interests in joint ventures.

11. The preparation and presentation of consolidated financial statements by a parent does not relieve the parent company to prepare and submit financial statements for its individual activity separately.

Overall considerations

Fair presentation and compliance with PGC-NIRF

12. Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework.

13. An entity whose financial statements comply with PGC-NIRF shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with PGC-NIRF unless they comply with all the requirements of PGC-NIRF.

14. An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

15. In the extremely rare circumstances in which management concludes that compliance with a requirement in a standard would be so misleading that it would conflict with the objective of financial statements set out in the Conceptual Framework, the entity shall depart from that requirement in the manner set out in the subsequent paragraph.

16. When an entity departs from a requirement of a standard requirement in accordance with previous paragraph, it shall disclose:
   (a) that management has concluded that the financial statements present fairly the entity’s financial position, financial performance and cash flows;
(b) that it has complied with applicable PGC-NIRF standards, except that it has departed from a particular requirement to achieve a fair presentation;

(c) the title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements, and the treatment adopted by the entity; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement in the Standards.

17. When an entity has departed from a requirement of a Standard in a prior accounting period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in previous paragraph (c) and (d).

Going concern

18. When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Accrual basis of accounting

19. An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

20. When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Conceptual Framework.

Materiality

21. An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Offsetting

22. An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by a Standard.

Frequency of reporting

23. An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose:

(a) the period covered by the financial statements:

(b) the reason for using a longer or shorter period; and
(c) the fact that amounts presented in the financial statements are not comparable.

Comparative information

24. Except when Standards permit or require otherwise, 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 include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements.

25. An entity disclosing comparative information shall present, as a minimum, two balance sheets, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three balance sheets, two of each of the other statements, and related notes. An entity presents the three balance sheets as at the following dates:

(a) the end of the current period;
(b) the end of the previous period (which is the same as the beginning of the current period); and
(c) the beginning of the earliest comparative period.

26. When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable. When the entity reclassifies comparative amounts, the entity shall disclose:

(a) the nature of the reclassification;
(b) the amount of each item or class of items that is reclassified; and
(c) the reason for the reclassification.

27. When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts; and
(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Consistency of presentation

28. An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) a Standard requires a change in presentation; or
(b) it is apparent, following a significant change in the nature of the entity’s operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in NCRF 4 – Accounting policies, changes in accounting estimates and errors.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

Introduction

29. The structure and content of financial statements should be in the formats presented in Chapter 1.6 of the
PGC-NIRF. 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.

Identification of the financial statements

30. An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

31. An entity shall clearly identify each of the statements that comprise a complete set of financial statements. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

(a) the name of the reporting entity, and any change in that information from the end of the preceding reporting period;
(b) whether the financial statements are of an individual entity (individual financial statements) or a group of entities (consolidated financial statements);
(c) the date of the end of the reporting period or the period covered by the financial statements;
(d) the presentation currency; and
(e) the level of rounding used in presenting amounts.

An entity makes its judgement to select the best way to present the information referred to in this paragraph.

32. The financial statements can be presented in thousands or millions of Meticais. The presentation on these or other degrees of rounding is allowed as long as the entity discloses the level of rounding and does not omit material information.

Balance sheet

Current/non-current distinction

33. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in accordance with paragraphs 37 to 44.

34. An entity shall disclose the amount expected to be recovered or settled after more than one year for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than one year after the reporting period, and
(b) more than one year after the reporting period.

35. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the balance sheet provides useful information by distinguishing the net assets that are continuously circulating (working capital) from those used in the entity’s long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

36. Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. NCRF 25 - Financial instruments requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities
include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than one year after the reporting period.

**Current assets**

37. 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 (as defined in NCRF 2 – Cash flow statements) unless the asset is restricted from being exchanged or used to settle a liability for at least one year after the reporting period.

An entity shall classify all other assets as non-current.

38. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity’s normal operating cycle is not clearly identifiable, it is assumed to be one year. Current assets can, however include assets, such as inventories and trade receivables that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within one year after the reporting period. Current assets also include financial assets held for trading in accordance with NCRF 25 – Financial instruments and the current portion of non-current financial assets.

**Current liabilities**

39. An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

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

(c) the liability is due to be settled within one year after the reporting period; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least one year after the reporting period.

An entity shall classify all other liabilities as non-current.

40. Some current liabilities, such as trade payables and some accruals are part of the working capital used in the entity’s normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than one year after the reporting period.

41. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within one year after the reporting period. Examples are some financial liabilities classified as held for trading in accordance with NCRF 25 – Financial instruments, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non trade payables.

42. An entity classifies its financial liabilities as current when they are due to be settled within one year after the reporting period, even if:
TITLE I – CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 1 – Presentation of financial statements

43. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least one year after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

44. When an entity breaches a provision of a medium or long-term loan arrangement with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least one year after that date.

**Income Statement**

45. An entity shall present all items of income and expenses recognized in the accounting period, whether they have been recognized in the profit or loss of the accounting period, or they have been recognized directly in other components of equity.

46. An entity shall not present any items of income or expense as extraordinary items, in the income statement, or in the notes.

47. An entity shall present the income statement either by nature or by function. The selection of one of these methods is a matter of judgement of the entity, but the entity must elect to provide that information more reliable and relevant to the objectives of financial statements.

48. The first form of analysis is the nature of expense method. An entity aggregates expenses according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary.

49. The second form of analysis is the function of expense method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature.

**Statement of changes in equity**

50. Changes in an entity’s equity between the beginning and the end of the reporting accounting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners (such as equity contributions, reacquisitions of the entity’s own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity’s activities during that period.

51. *NCRF 4 – Accounting policies, changes in accounting estimates and errors* requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition
provisions in another Standard require otherwise. **NCRF 4 – Accounting policies, changes in accounting estimates and errors** also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, (or of another component of equity when required by other Standard). It is required disclosure in this statement of changes in equity, in separate lines, both for each prior affected accounting period and the beginning of the current accounting period.

**Statement of cash flows**

52. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. **NCRF 2 – Cash flow statements** sets out requirements for the presentation and disclosure of cash flow information.

**Explanatory Notes**

**Structure**

53. The notes shall:

   (a) present information about the basis of preparation of the financial statements and the specific accounting policies used;

   (b) disclose the information required by any Standard of PGC-NIRF that is not presented elsewhere in the financial statements; and

   (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

54. An entity shall present notes in a systematic manner as it is presented in Chapter 1.6 of PGC-NIRF.

55. An entity shall cross-reference each item in the balance sheet, income statement, and cash flows statement to any related information in the notes.

**Disclosure of accounting policies**

56. An entity shall disclose in the summary of significant accounting policies the measurement basis or bases used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

57. Additionally, an entity shall disclose, the judgements, that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Sources of estimation uncertainty**

58. An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting accounting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next accounting period. These assets and liabilities should be disclosed in the notes as to its nature and amount at the end of the accounting period.
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OBJECTIVE

1. Information about the cash flows of an entity is useful in providing users with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.

2. The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows, which classifies cash flows during the period from operating, investing and financing activities.

3. Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

SCOPE

4. An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

Benefits of Cash Flow Information

5. A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

6. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Cash and Cash Equivalents

7. Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity from the date of acquisition (for example, three months or less).

9. Bank borrowings are generally considered to be financing activities. However, bank overdrafts ie bank facilities that are floating the balance of the bank from positive to negative, are part of the cash management of an entity and, therefore, are included as a component of cash and cash equivalents.

10. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a Statement of Cash Flows

11. The statement of cash flows shall report cash flows during the accounting period classified by operating, investing and financing activities.
12. Classification of cash flows by operating, investing and financing activities provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

13. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

Operating activities

14. Cash flows from operating activities are primarily derived from the principal revenue producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

   (a) cash receipts from the sale of goods and the rendering of services;
   (b) cash receipts from royalties, fees, commissions and other revenue;
   (c) cash payments to suppliers for goods and services;
   (d) cash payments to employees;
   (e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
   (f) cash payments or refunds of taxes unless they can be specifically identified with financing and investing activities; and
   (g) cash receipts and payments from contracts held for dealing purposes.

Some transactions, such as the sale of tangible asset, may give rise to a gain or loss that is included in recognised profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

15. An entity may hold securities and loans for dealing or trading purposes, as in the case of financial institutions, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, loans made by financial institutions are usually classified as operating activities since they relate to the main revenue producing activity of that entity.

Investing activities

16. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

   (a) cash payments to acquire tangible, intangible and other long-term assets including those relating to capitalised development costs and self-constructed assets;
   (b) cash receipts from sales of tangible, intangible and other long-term assets;
   (c) cash payments to acquire equity instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
   (d) cash receipts from sales of equity instruments of other entities and interests in joint
ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) cash advances and loans made to other parties (other than made by a financial institution);

(f) cash receipts from the repayment of advances and loans made to other parties (other than made by a financial institution);

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes or the receipts are classified as financing activities.

**Financing activities**

17. The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) cash receipts from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity’s shares;

(c) cash receipts from issuing debentures, loans, notes, bonds, mortgages and other borrowings;

(d) cash repayments of amounts borrowed;

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

**REPORTING CASH FLOWS FROM OPERATING ACTIVITIES**

18. An entity shall report cash flows from operating activities using either:

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss for the period is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals, and items of income or expense associated with investing or financing cash flows.

19. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the entity; or

(b) by adjusting sales, cost of sales and other items in the cash flow statement related to:

(i) changes during the period in inventories and in receivables and payables of operating nature;
(ii) other non-cash items; and
(iii) other items for which the cash effects are investing or financing cash flows.

20. Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss of the period for the effects of:
   (a) changes during the period in inventories and in receivables and payables of operating nature;
   (b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates and non controlled interest; and
   (c) all other items for which the cash effects are investing or financing cash flows.

21. Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the cash flow statement and the changes during the period in inventories and operating receivables and payables.

REPORTING CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

22. An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraph 23 are reported on a net basis.

REPORTING CASH FLOWS ON A NET BASIS

23. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:
   (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
   (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

FOREIGN CURRENCY CASH FLOWS

24. Cash flows arising from transactions in a foreign currency shall be recorded in an entity’s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

25. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

26. Cash flows denominated in a foreign currency are reported in a manner consistent with NCRF 23 - The effects of changes in foreign exchange rates. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, that Standard does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

27. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the
beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

INTEREST AND DIVIDENDS

28. Cash flows from interest and dividends received and paid shall each be disclosed separately and classified in a consistent manner from period to period as operating, investing or financing activities.

29. The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in the income statement or capitalised in accordance with NCRF 27- Borrowing costs.

30. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively:

(a) interest paid may be classified as financing cash flows and investing cash flows, because they are costs of obtaining financial resources; and.

(b) interest and dividends received may be classified as investing cash flows, because they are returns on investments.

31. Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

TAXES ON INCOME

32. Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

33. When accounting for an investment in subsidiaries or associates by use of the cost or equity method, an entity restricts its reporting in the statement of cash flows to the cash flows between itself and the investee (for example, to dividends and advances).

34. An entity, which reports its interest in a jointly controlled entity (see NCRF 20 - Investments in subsidiaries, associates and interests in joint ventures) using proportionate consolidation, includes in its consolidated statement of cash flows its proportionate share of the jointly controlled entity’s cash flows. An entity, which reports such an interest using the equity method, includes in its statement of cash flows the cash flows in respect of its investments in the jointly controlled entity, and other payments or receipts between it and the jointly controlled entity.

CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES AND OTHER BUSINESSES

35. The aggregate cash flows arising from obtaining and losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

36. An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

(a) the total consideration paid or received;

(b) the portion of the consideration consisting of cash and cash equivalents;
(c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and

(d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses, over which control is obtained or lost, summarised by each major category.

37. The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.

38. The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

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

NON-CASH TRANSACTIONS

40. Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

41. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows, as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

   (a) the acquisition of assets by assuming directly related liabilities; and

   (b) the conversion of debt to equity.

COMPONENTS OF CASH AND CASH EQUIVALENTS

42. An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.

OTHER DISCLOSURES

43. An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity.
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**NCRF 3 – Earnings per share**

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**TITLE I – CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)**

**CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS**
OBJECTIVE

1. The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data have limitations because of the different accounting policies that may be used for determining ‘earnings’, a consistently determined denominator enhances financial reporting. The focus of this Standard is on the denominator of the earnings per share calculation.

SCOPE

2. This Standard shall apply to

   (a) the separate or individual financial statements of an entity whose shares are or are to be traded in any public market;

   (b) the separate or individual financial statements of an entity filled, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and

   (c) the consolidated financial statements of an entity whose parent company is in any of the situations mentioned in a) and b) above.

3. An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

4. When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with PGC - NIRF, the disclosures required by this Standard need be presented only on the basis of the consolidated information.

5. An entity shall present the earnings per share regardless of the amounts are positive (profit per share) or negative (loss per share).

MEASUREMENT

6. An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

7. Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

8. For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity must be the profit or loss attributable to the parent entity (or the profit or loss from continuing operations attributable to the parent entity) adjusted for the amounts (net of taxes) relating to preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares.

9. For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period. This weighted average number shall be adjusted for events that have changed the number of ordinary shares outstanding without a corresponding change in resources (and not for events related to the conversion of potential ordinary shares).
RETROSPECTIVE ADJUSTMENTS

10. If the number of ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of earnings per share for shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorised for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes shall be disclosed. In addition, earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

DISCLOSURE

11. An entity shall disclose the following:

(a) the amounts used as the numerators in calculating earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period;

(b) the weighted average number of ordinary shares used as the denominator in calculating earnings per share; and

(c) a description of ordinary share transactions (other than those accounted for in accordance with paragraph 10), that occur after the reporting period and that would have changed significantly the number of ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.
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OBJECTIVE

1. This Standard prescribes the criteria for selecting and changing accounting policies, defines the accounting treatment to apply and the need of disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity’s financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

SCOPE

2. This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

3. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with NCRF 12 – Current and deferred income taxes.

ACCOUNTING POLICIES

Selection and application of accounting policies

4. When a Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that transaction, other event or condition, shall be determined by applying that Standard.

5. In the absence of a Standard that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision making needs of users and on the other hand, reliable, in that the financial statements:

   (a) represent faithfully the financial position, financial performance and cash flows of the entity;
   (b) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
   (c) are neutral, ie free from bias;
   (d) are prudent; and
   (e) are complete in all material respects.

6. In making the judgement described in prior paragraph, management shall refer to, and consider the applicability of, the following sources in descending order:

   (a) the requirements in the Standards dealing with similar and related issues; and
   (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.

7. In making the judgement described in paragraph 5, management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting and financial reporting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in the prior paragraph.

Consistency of accounting policies

8. An entity shall select and apply its accounting policies consistently for similar transactions, other events and
Accounting policies, changes in accounting estimates and errors

9. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in the following paragraph 10.

Changes in accounting policies

10. An entity shall change an accounting policy only if the change:
    (a) is required by a Standard; or
    (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.

11. The following are not changes in accounting policies:
    (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
    (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

12. The initial application of a policy to revalue assets in accordance with NCRF 13 – Tangible assets or NCRF 14 - Intangible assets is a change in an accounting policy to be dealt with as a revaluation in accordance with those Standards, rather than in accordance with this Standard.

Applying changes in accounting policies

13. Subject to the paragraph 15 below, an entity shall:
    (a) account for a change in accounting policy resulting from the initial application of a Standard in accordance with the specific transitional provisions, if any, in that Standard; and
    (b) apply the change retrospectively, when an entity changes an accounting policy upon initial application of a Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily.

14. When a change in accounting policy is applied retrospectively in accordance with previous paragraph the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on retrospective application

15. When retrospective application is required by paragraph 13 above, a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the change.

16. When it is impracticable to determine the specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the
carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

17. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

**Disclosure**

18. When initial application of a Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the title of the Standard;

(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(c) the nature of the change in accounting policy;

(d) when applicable, a description of the transitional provisions;

(e) when applicable, the transitional provisions that might have an effect on future periods;

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

(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) if retrospective application required by paragraph 13 is impracticable for a particular period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

19. When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

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

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

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

(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.
CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 4 Accounting policies, changes in accounting estimates and errors

Financial statements of subsequent periods need not repeat these disclosures.

CHANGES IN ACCOUNTING ESTIMATES

20. As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:

(a) bad debts;
(b) inventory obsolescence;
(c) the fair value of financial assets and financial liabilities;
(d) the useful lives of depreciable assets; and
(e) warranty obligations.

21. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

22. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

23. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

24. The effect of a change in an accounting estimate, other than a change to which the following paragraph applies, shall be recognised prospectively by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or
(b) the period of the change and future periods, if the change affects both.

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

Disclosure

26. An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

27. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

ERRORS

28. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with PGC-NIRF if they contain either material or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. Material errors discovered in a subsequent period are corrected in the comparative information presented in the financial statements for that subsequent
NCRF 4 Accounting policies, changes in accounting estimates and errors

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29. Subject to limitations of the following paragraph, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

   (a) restating the comparative amounts for the prior periods presented in which the error occurred; and

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

Limitations on retrospective restatement

30. A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error.

31. When it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable, which may be the current period, and make the adjustment to opening balances of each affected component of equity in the corresponding period.

32. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

33. The correction of a prior period error is excluded from the income statement for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.

Disclosure of prior period errors

34. In applying paragraph 29, an entity shall disclose the following:

   (a) the nature of the prior period error;

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

   (c) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.
TITLE I – CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 5 – Events after the balance sheet date

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OBJECTIVE

1. The objective of this Standard is to prescribe:
   (a) when an entity should adjust its financial statements for events after the balance sheet date; and
   (b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the balance sheet date.

2. The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate.

SCOPE

3. This Standard shall be applied in the accounting for, and disclosure of, events after the balance sheet date.

4. Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:
   (a) those that provide evidence of conditions that existed at balance sheet date causing adjustments to the financial statements after the balance sheet date (adjusting events); and
   (b) those that are indicative of conditions that arose after the balance sheet date and do not cause adjustments to the financial statements (non adjusting events).

5. Events after the balance sheet date include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information. The date on which the financial statements are authorized for issuance is the date on which the management approves the financial statements.

RECOGNITION AND MEASUREMENT

Events that cause adjustments to the financial statements

6. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date that cause adjustments.

7. The following are examples of adjusting events after the balance sheet date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:
   (a) the settlement after the balance sheet date of a court case that confirms that the entity had a present obligation at the balance sheet date. The entity adjusts any previously recognised provision related to this court case in accordance with NCRF 24 - Provisions, contingent liabilities and contingent assets or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance that Standard.
   (b) the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
(i) the bankruptcy of a customer that occurs after the balance sheet date usually confirms that a loss existed at that date on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable;

(ii) the sale of inventories after the balance sheet date may give evidence about their net realisable value at that date.

(c) the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date;

(d) the discovery of fraud or errors that show that the financial statements are incorrect.

Events that do not cause adjustments to the financial statements

8. An entity shall not adjust the amounts recognised in its financial statements to reflect non adjusting events after the balance sheet date.

9. An example of a non adjusting event after the reporting period is a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under paragraph 17 of this Standard.

Dividends

10. If an entity declares dividends to holders of equity instruments, as defined in NCRF 25 - Financial instruments, after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date. Similarly, If dividends are declared after the balance sheet date but before the financial statements are authorised for issue, such dividends are not recognised as a liability at the balance sheet date because it does not meet the criteria for this requirement contained in NCRF 24 - Provisions, contingent liabilities and contingent assets, but must be disclosed in the notes according to the NCRF 1 - Presentation of financial statements.

GOING CONCERN

11. An entity shall not prepare its financial statements on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

12. Deterioration in operating results and financial position after the balance sheet date may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

13. NCRF 1 - Presentation of financial statements specifies required disclosures if:

   (a) the financial statements are not prepared on a going concern basis; or

   (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the balance sheet date.
ACCOUNTING SYSTEM FOR THE BUSINESS SECTOR IN MOZAMBIQUE

TITLE I – CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 5 – Events after the balance sheet date

DISCLOSURE

Date of authorisation for issue

14. An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity’s equity owners have the power to amend the financial statements after issue, the entity shall disclose that fact. It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the balance sheet date

15. If an entity receives information after the balance sheet date about conditions that existed at the balance sheet date, it shall update disclosures that relate to those conditions, in the light of the new information.

16. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the balance sheet date, even when the information does not affect the amounts that it recognises in its financial statements. One example of that is when evidence becomes available after the balance sheet date about a contingent liability that existed at the balance sheet date. In addition to considering whether it should recognise or change a provision under NCRF 24 - Provisions, contingent liabilities and contingent assets, an entity updates its disclosures about the contingent liability in the light of that evidence.

Events that do not cause adjustments to the financial statements

17. When the events that do not cause adjustments to the financial statements are material, non disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non adjusting event:

   (a) the nature of the event; and
   (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

18. The following are examples of events that do not cause adjustments to the financial statements that would generally result in disclosure:

   (a) a major business combination (NCRF 21 – Business combinations requires, in some cases, specific disclosures) or disposing of a major subsidiary;
   (b) announcing a plan to discontinue an operation;
   (c) major purchases of assets, classification of assets as held for sale in accordance with NCRF 22 - Non-Current assets held for sale and discontinued operations, majors disposal of assets, or expropriation of major assets by government;
   (d) the destruction of a major production plant by a fire;
   (e) announcing, or commencing the implementation of, a major restructuring plan(see NCRF 24 - Provisions, contingent liabilities and contingent assets);
   (f) major share transactions and potential major share transactions (See NCRF 3 - Earnings per Share);
   (g) abnormally large changes in asset prices or foreign exchange rates;
   (h) changes in tax rates or tax laws enacted or announced after the balance sheet date that have a significant effect on current and deferred tax assets and liabilities (see NCRF 12 Current and deferred income taxes);
(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencing major litigation arising solely out of events that occurred after the balance sheet date.
TITLE I – CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 6 – Related party disclosures

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OBJECTIVE

1. The objective of this Standard is to ensure that an entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its balance sheet and income statement may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

SCOPE

2. This Standard shall be applied in:
   (a) identifying related party relationships and transactions;
   (b) identifying outstanding balances between an entity and its related parties;
   (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
   (d) determining the disclosures to be made about those items.

3. This Standard requires disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, in accordance with NCRF 20 – Investments in subsidiaries, associates and interests in joint ventures.

4. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity’s financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

PURPOSE OF DISCLOSURES

5. Related party relationships are a normal feature of commerce and business. Entities frequently carry on parts of their activities through subsidiaries, associates and joint ventures. In these circumstances, the entity’s ability to affect the financial and operating policies of the investee is through the presence of control, and significant influence.

6. A related party relationship could have an effect on the balance sheet and income statement of an entity. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. However, the balance sheet and income statement of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties.

7. For all these reasons, knowledge of related party transactions, outstanding balances and relationships may affect assessments of an entity’s operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

DISCLOSURE

8. Relationships between related parties shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity’s parent and, if different, the next intermediate controlling parent.

9. An entity shall disclose key management personnel compensation in total and for each of the following categories:
   (a) short-term employee benefits;
   (b) post-employment benefits and other long-term benefits;
   (c) termination benefits; and
10. If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 9 to disclose key management personnel compensation. At a minimum, disclosures shall include:

   (a) the amount of the transactions;
   (b) the amount of outstanding balances and their terms and conditions, including whether they are secured and details of any guarantees given or received; and
   (c) adjustments (provisions) for doubtful debts related to the amount of outstanding balances as well as the expense recognised during the period in respect to these provisions.

11. The disclosures required by previous paragraph shall be made separately for each of the following categories:

   (a) the parent;
   (b) entities with joint control or significant influence over the entity;
   (c) subsidiaries;
   (d) associates;
   (e) joint ventures in which the entity is a venturer;
   (f) key management personnel of the entity or its parent; and
   (g) other related parties.

12. The following are examples of transactions that are disclosed if they are with a related party:

   (a) purchases and sales of inventory;
   (b) purchases and sales of tangible assets and other assets;
   (c) rendering and receiving of services;
   (d) leases;
   (e) transfers of research and development;
   (f) transfers under licence agreements;
   (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
   (h) provision of guarantees; and
   (i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

13. Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.
TITLE I – CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 7 – Operating segments reporting

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OBJECTIVE

1. An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

2. The objective of this Standard is to prescribe the requirements for disclosure of information about an entity’s operating segments and also about the entity’s products and services, the geographical areas in which it operates, and its major customers.

SCOPE

3. This Standard shall apply to financial statements (individual or consolidated) of an entity whose debt or equity instruments are traded in any public market. Additionally, this Standard applies to those financial statements (individual or consolidated) of an entity that files (or is in the process of filing), its financial statements with a securities regulatory organisation for the purpose of issuing or trading those instruments.

4. If a financial report contains both the consolidated financial statements of a parent that is within the scope of PGC-NIRF as well as the parent’s separate financial statements, segment information is required only in the consolidated financial statements.

OPERATING SEGMENTS

5. An operating segment is a component of an entity:
   (a) that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity,
   (b) whose operating results are regularly reviewed by the entity’s management to make decisions about resources to be allocated to the segment and assess its performance; and
   (c) for which discrete financial information is available.

6. Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments.

REPORTABLE SEGMENTS

7. An entity shall report separately information about each operating segment that:
   (a) has been identified in accordance with previous paragraphs 5 and 6 or results from aggregating two or more of those segments in accordance with paragraph 8 below; and
   (b) exceeds the quantitative thresholds prescribed in paragraph 9 below.

Aggregation criteria

8. Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:
   (a) the nature of the products and services;
(b) the nature of the production processes;
(c) the type or class of customer for their products and services;
(d) the methods used to distribute their products or provide their services; and
(e) if applicable, the nature of the regulatory environment.

Quantitative thresholds

9. An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
   (a) Its reported revenue, including both sales and intersegment transfers, is 10 per cent or more of the combined revenue of all operating segments;
   (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss;
   (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

10. An entity may combine information about operating segments that individually do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 8.

11. If the total revenue reported by operating segments constitutes less than 75 per cent of the entity’s revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 9) until at least 75 per cent of the entity’s revenue is included in reportable segments.

12. If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 9 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.

DISCLOSURE

13. An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. For this purpose, an entity shall disclose the following for each period for which an income statement is presented:
   (a) general information as described in paragraph 14;
   (b) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, and in related assets and liabilities; and
   (c) reconciliations of the totals of reported segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding
entity amounts as described in paragraph 19.

Reconciliations of the amounts in the balance sheet for reportable segments to the amounts in the entity's balance sheet are required for all presented reporting periods.

General information

14. An entity shall disclose the following general information:

   (a) criteria used to identify the entity’s reportable segments, including the basis of organisation (for example, in accordance to products and services, geographical areas, regulatory environments, or a combination of criteria and whether operating segments have been aggregated);

   (b) types of products and services from which each reportable segment derives its revenues.

Information about profit or loss, assets and liabilities

15. An entity shall report the amounts of profit or loss and total assets (and liabilities, when available) for each reportable segment. Additionally, if the specified amounts are included in the measure of each reportable segment profit or loss, an entity shall disclose the following:

   (a) revenues from external market customers;

   (b) revenues from transactions with other operating segments of the same entity;

   (c) interest revenue;

   (d) interest expense;

   (e) depreciation and amortisation;

   (f) material items of income and expense disclosed in accordance of NCRF 1 - Presentation of financial statements;

   (g) the entity’s interest in the profit or loss of associates and joint ventures accounted for by the equity method;

   (h) income tax; and

   (i) material non-cash items other than depreciation and amortisation.

16. An entity shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets:

   (a) the amount of investment in associates and joint ventures accounted for by the equity method; and

   (b) the amounts of additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

MEASUREMENT

17. The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity’s financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment’s profit or loss that is used by the chief
operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment’s assets and segment’s liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.

18. An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:

(a) the basis of accounting for any transactions between reportable segments;
(b) the nature of any differences between the measurements of the reportable segments’ profits or losses and the entity’s profit or loss before income tax and discontinued operations (if not apparent from the reconciliations described in paragraph 19);
(c) the nature of any differences between the measurements of the reportable segments’ assets and liabilities and the entity’s assets and liabilities (if not apparent from the reconciliations described in paragraph 19);
(d) the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss;
(e) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

19. An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments’ revenues to the entity’s revenue;
(b) the total of the reportable segments’ profit or loss to the entity’s profit or loss before taxes and discontinued operations. However, if an entity allocates to reportable segments part of taxes, the entity may reconcile the total of the segments’ profit or loss to the entity’s profit or loss after taxes;
(c) the total of the reportable segments’ assets and liabilities to the entity’s assets and liabilities;
(d) the total of the reportable segments’ amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described.

ENTITY-WIDE DISCLOSURES

20. The following paragraphs apply to all entities subject to the current Standard including those entities that have a single reportable segment and information provided for therein shall be provided only if not included in the information reportable segment, required by this Standard. Some entities’ business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity’s reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity’s reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of
its reportable segments may operate in the same geographical area.

**Information about products and services**

21. An entity shall report the revenues from customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity’s financial statements.

**Information about geographical areas**

22. An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

   (a) revenues from external customers (i) attributed to the entity’s country of domicile and (ii) attributed to all foreign countries. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries; and

   (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts: (i) located in the entity’s country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity’s financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed.

**Information about major customers**

23. An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single customer amount to 10 per cent or more of an entity’s revenues, the entity shall disclose that fact, as well as the total amount of revenues from each such customer, and the identity of the segment or segments reporting those revenues.
CONTENT

OBJECTIVE

SCOPE

CONTENT OF AN INTERIM FINANCIAL REPORT

Minimum components of an interim financial report

Form and content of interim financial statements

Selection of explanatory notes

Disclosure of compliance with PGC-NIRF

Periods for which interim financial statements are required to be presented

Materiality

RECOGNITION AND MEASUREMENT

Same accounting policies as annual

Use of estimates
OBJECTIVE

1. The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of interested users to understand an entity’s financial condition and its capacity to generate earnings.

SCOPE

2. This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators and stock exchanges, often require entities whose debt or equity securities are publicly traded to publish interim financial reports.

3. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with PGC-NIRF. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entity’s annual financial statements from conforming to PGC-NIRF if they otherwise do so.

CONTENT OF AN INTERIM FINANCIAL REPORT

4. NCRF 1 – *Presentation of financial statements* defines a complete set of financial statements as including its components. In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required (or may elect) to provide less information at interim dates as compared with its annual financial statements.

5. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

6. Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard.

Minimum components of an interim financial report

7. An interim financial report shall include, at a minimum, the following components:

   (a) a balance sheet;
   (b) an income statement;
   (c) a statement of changes in equity;
   (d) a statement of cash flows; and
   (e) selected explanatory notes.

Form and content of interim financial statements

8. If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of *NCRF 1 – Presentation of financial statements* for a complete set of financial statements.
9. If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard.

10. In the income statement that an entity shall present the earnings per share for that period.

Selected explanatory notes

11. An entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis:

(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;

(b) explanatory comments about the seasonality or cyclicality of interim operations;

(c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence;

(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;

(e) issuances, repurchases, and repayments of debt and equity securities;

(f) dividends paid (aggregate and per share) separately for ordinary shares and other shares;

(g) segment information (if such information is required in its annual financial statements);

(h) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

(i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and other investments, restructurings, and discontinued operations; and

(j) changes in contingent liabilities or contingent assets since the end of the last annual reporting period.

Disclosure of compliance with PGC-NIRF

12. If an entity’s interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with PGC-NIRF unless it complies with all the requirements of PGC-NIRF.

Periods for which interim financial statements are required to be presented

13. Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

(a) The balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;

(b) Income statement for the current interim period and with comparative income for the comparable interim period of the immediately preceding financial year;
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(c) statement of changes in equity for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year;

(d) statement of cash flows for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

Materiality

14. In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

RECOGNITION AND MEASUREMENT

Same accounting policies as annual

15. An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, the frequency of an entity’s reporting (annual, half yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.

Use of estimates

16. The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.
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OBJECTIVE

1. This Standard prescribes the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

SCOPE

2. This Standard applies to all inventories, except:
   (a) work in progress arising under construction contracts, including directly related service contracts (see NCRF 10 - Construction contracts);
   (b) financial instruments (see NCRF 25 - Financial instruments); and
   (c) biological assets related to agricultural activity and agricultural produce at the point of harvest (see NCRF 11 - Agriculture and biological assets).

3. This Standard does not apply to the measurement of inventories held by:
   (a) producers of agricultural and forest products, agricultural producers at the point of harvest, and mineral producers and products, to the extent that they are measured at net realisable value in accordance with well established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change;
   (b) commodity broker traders who measure their inventories at fair value less costs to sell. Under these circumstances, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

4. The inventories referred to in paragraph 3(a) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested and its sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard but the remaining requirements shall apply.

5. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders’ margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard, but the remaining requirements shall apply.

6. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service, for which the entity has not yet recognised the related revenue (see paragraph 14).

MEASUREMENT OF INVENTORIES

7. Inventories shall be measured at the lower of cost and net realisable value.
Cost of inventories

8. 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.

Cost of purchase

9. 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.

Costs of conversion

10. 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.

11. 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

12. 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.

13. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, is recognised as interest expense over the period of the financing.

Cost of inventories of a service provider

14. To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service.

Techniques for the measurement of cost

15. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method is often used in the retail industry for measuring inventories. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

16. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.
17. The cost of inventories, other than those dealt with in the previous paragraph, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

**Net realisable value**

18. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.

19. Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment.

20. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

21. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.

22. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

**RECOGNITION AS AN EXPENSE**

23. When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

24. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed tangible assets. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

**DISCLOSURE**

25. The financial statements shall disclose:

   (a) the accounting policies adopted in measuring inventories, including the cost formula used;
(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the carrying amount of inventories carried at fair value less costs to sell;

(d) the amount of inventories recognised as an expense during the period;

(e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 23;

(f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 23;

(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 23; and

(h) the carrying amount of inventories pledged as security for liabilities.
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NCRF 10 – Construction contracts

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OBJECTIVE

1. The objective of this Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed.

SCOPE

2. This Standard shall be applied in accounting for construction contracts in the financial statements of contractors.

3. A construction contract may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel. A construction contract may also deal with the construction of a number of assets, which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

4. For the purposes of this Standard, construction contracts include:
   (a) contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and
   (b) contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

COMBINING AND SEGMENTING CONSTRUCTION CONTRACTS

5. The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

6. When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:
   (a) separate proposals have been submitted for each asset;
   (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
   (c) the costs and revenues of each asset can be identified.

7. A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:
   (a) the group of contracts is negotiated as a single package;
   (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
   (c) the contracts are performed concurrently or in a continuous sequence.

8. A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset shall be treated as a separate construction contract when:
   (a) the asset differs significantly in design, technology or function from the asset or assets...
covered by the original contract; or
(b) the price of the asset is negotiated without regard to the original contract price.

9. Contract revenue shall comprise:
(a) the initial amount of revenue agreed in the contract; and
(b) variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

10. Contract revenue is measured at the fair value of the consideration received or receivable. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue may increase or decrease from one period to the next.

11. A variation is an instruction by the customer for a change in the scope of the work to be performed under the contract. A variation may lead to an increase or a decrease in contract revenue. A variation is included in contract revenue when:
(a) it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and
(b) the amount of revenue can be reliably measured.

12. A claim is an amount that the contractor seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. A claim may arise from, for example, customer caused delays, errors in specifications or design, and disputed variations in contract work. A claim is included in contract revenue only when:
(a) negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
(b) the amount that it is probable will be accepted by the customer can be measured reliably.

13. Incentive payments are additional amounts paid to the contractor if specified performance standards are met or exceeded. Incentive payments are included in contract revenue when:
(a) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and
(b) the amount of the incentive payment can be measured reliably.

14. Contract costs shall comprise:
(a) costs that relate directly to the specific contract;
(b) costs that are attributable to contract activity in general and can be allocated to the contract; and
(c) such other costs as are specifically chargeable to the customer under the terms of the contract.

15. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. However, costs that relate directly to a contract and are
incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

RECOGNITION OF CONTRACT REVENUE AND EXPENSES

16. When the outcome of a construction contract can be estimated reliably, 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. An expected loss on the construction contract shall be recognised as an expense immediately in accordance with paragraph 24.

17. In the case of a fixed price contract, the outcome of a construction contract can be measured reliably when all the following conditions are satisfied:

   (a) total contract revenue can be measured reliably;
   (b) it is probable that the economic benefits associated with the contract will flow to the entity;
   (c) both the contract costs to complete the contract and the stage of contract completion at the balance sheet date can be measured reliably; and
   (d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

18. In the case of a cost plus contract, the outcome of a construction contract can be measured reliably when all the following conditions are satisfied:

   (a) it is probable that the economic benefits associated with the contract will flow to the entity; and
   (b) the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

19. 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.

20. 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.

21. 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:

   (a) the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs;
   (b) surveys of work performed; or
   (c) completion of a physical proportion of the contract work.

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

22. When the outcome of a construction contract cannot be measured reliably:
(a) revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable; and
(b) contract costs shall be recognised as an expense in the period in which they are incurred.

23. When the uncertainties that prevented the outcome of the contract being measured reliably no longer exist, revenue and expenses associated with the construction contract shall be recognised in accordance with paragraph 16 rather than in accordance with paragraph 22.

RECOGNITION OF EXPECTED LOSSES

24. When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately.

CHANGES IN ESTIMATES

25. The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate (see NCRF 4 - Accounting Policies, Changes in Accounting Estimates and Errors). The changed estimates are used in the determination of the amount of revenue and expenses recognised in profit or loss in the period in which the change is made and in subsequent periods.

DISCLOSURE

26. An entity shall disclose:

(a) the amount of contract revenue recognised as revenue in the period;
(b) the methods used to determine the contract revenue recognised in the period; and
(c) the methods used to determine the stage of completion of contracts in progress.

27. An entity shall disclose each of the following for contracts in progress at the balance sheet date:

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;
(b) the amount of advances received; and
(c) the amount of retentions.

28. An entity shall present:

(a) the gross amount due from customers for contract work as an asset; and
(b) the gross amount due to customers for contract work as a liability.
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OBJECTIVE

1. The objective of this Standard is to prescribe the accounting treatment and disclosures related to agricultural activity.

SCOPE

2. This Standard shall be applied to account for the following when they relate to agricultural activity:
   (a) biological assets;
   (b) agricultural produce at the point of harvest; and
   (c) Government grants covered by paragraphs 18 to 21 of the current Standard.

3. This Standard does not apply to:
   (a) land related to agricultural activity (see NCRF 13 – Tangible assets and NCRF 16 - Investment property); and
   (b) intangible assets related to agricultural activity (see NCRF 14 - Intangible assets).

4. This Standard is applied to agricultural produce, which is the harvested product of the entity’s biological assets, only at the point of harvest. Thereafter, NCRF 9 - Inventories or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine may be a logical and natural extension of agricultural activity, such processing is not included within the definition of agricultural activity in this Standard.

5. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

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<td>Bushes</td>
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<td>Vines</td>
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<td>Fruit trees</td>
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6. Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture and aquaculture (including fish farming). Certain common features exist within this diversity:
   (a) Capability to change. Living animals and plants are capable of biological transformation;
7. Biological transformation results in the following types of outcomes:

(a) Biological asset changes through:
   (i) growth (an increase in quantity or improvement in quality of an animal or plant);
   (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant); or
   (iii) procreation (creation of additional living animals or plants); or

(b) production of agricultural produce such as latex, tea leaf, wool, and milk.

RECOGNITION AND MEASUREMENT

8. An entity shall recognise a biological asset or agricultural produce when, and only when:

(a) the entity controls the asset as a result of past events;

(b) it is probable that future economic benefits associated with the asset will flow to the entity; and

(c) the fair value or cost of the asset can be measured reliably.

9. In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes.

10. A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 16 of the current Standard where the fair value cannot be measured reliably.

11. Agricultural produce shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying NCRF 9 - Inventories or another applicable Standard.

12. The fair value of an asset is based on its present location and condition. As a result, for example, the fair 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.

13. The estimated costs to sell include, for example, commissions to intermediaries or fees to regulatory or supervisory authorities, but exclude, for example, transport and other costs necessary to place the assets in the market, since these are already included in the fair value asset determined in accordance with the preceding paragraph.

Gains and losses

14. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a
change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises. For example, a loss may arise on initial recognition of a biological asset, because costs to sell are deducted in determining fair value less costs to sell of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.

15. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in income statement for the period in which it arises. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

Inability to measure fair value reliably

16. There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market determined prices are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations, it is presumed that fair value can be measured reliably.

17. In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

Government grants

18. An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised as revenue when, and only when, the government grant becomes receivable.

19. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional (including when a government grant requires an entity not to engage in specified agricultural activity), an entity shall recognise the government grant as revenue when, and only when, the conditions attaching to the government grant are met.

20. Terms and conditions of government grants vary. For example, a grant may require an entity to farm in a particular location for five years and require the entity to return all of the grant if it farms for a period shorter than five years. In this case, the grant is not recognised as revenue until the five years have passed. However, if the terms of the grant allow part of it to be retained according to the time that has elapsed, the entity recognises that part as revenue as time passes.

21. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, NCRF 26 – Accounting for government grants and disclosure of government assistance is applied.

DISCLOSURE

General

22. An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.

23. An entity shall provide a description of each group of biological assets.
24. If not disclosed elsewhere in information published with the financial statements, an entity shall describe:
   (a) the nature of its activities involving each group of biological assets; and
   (b) non-financial measures or estimates of the physical quantities of each group of the entity’s biological assets at the end of the period and the output of agricultural produce during the period.

25. An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.

26. An entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.

27. An entity shall disclose:
   (a) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;
   (b) the amount of commitments for the development or acquisition of biological assets; and
   (c) financial risk management strategies related to agricultural activity.

28. An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period, including:
   (a) the gain or loss arising from changes in fair value less costs to sell;
   (b) increases due to purchases;
   (c) decreases attributable to sales and biological assets classified as held for sale;
   (d) decreases due to harvest;
   (e) increases resulting from business combinations;
   (f) other changes.

Additional disclosures for biological assets where fair value cannot be measured reliably

29. If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, the entity shall disclose:
   (a) a description of the biological assets;
   (b) an explanation of why fair value cannot be measured reliably;
   (c) if possible, the range of estimates within which fair value is highly likely to lie;
   (d) the depreciation method used;
   (e) the useful lives or the depreciation rates used; and
   (f) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

30. If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses, an entity shall disclose any gain or loss recognised on disposal of such biological assets. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets:
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(a) impairment losses;
(b) reversals of impairment losses; and
(c) depreciation.

31. If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

(a) a description of the biological assets;
(b) an explanation of why fair value has become reliably measurable; and
(c) the effect of the change.

Government grants

32. An entity shall disclose the following related to agricultural activity covered by this Standard:

(a) the nature and extent of government grants recognised in the financial statements;
(b) unfulfilled conditions and other contingencies attaching to government grants; and
(c) significant decreases expected in the level of government grants.
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OBJECTIVE

1. The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

   (a) the future recovery (or settlement) of the carrying amount of assets (or liabilities) that are recognised in an entity’s balance sheet; and

   (b) transactions and other events of the current period that are recognised in an entity’s financial statements.

2. It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger or smaller than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognise a deferred tax liability (or asset), with certain limited exceptions.

3. This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in income statement, any related tax effects are also recognised in the income statement. For transactions and other events recognised outside of the income statement (directly in equity), any related tax effects are also recognised outside of the income statement (directly in equity). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill (or negative goodwill) arising in that business combination.

4. This Standard also deals with the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.

SCOPE

5. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on dividends made available to the reporting entity.

6. This Standard does not deal with the methods of accounting for government grants (see NCRF 26 Accounting for government grants and disclosure of government assistance) or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

TAX BASE

7. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

8. The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

9. Some items have a tax base but are not recognised as assets and liabilities in the balance sheet. For example, some costs are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit or tax loss until a later period. The difference between the amount that the taxation authorities will permit as a deduction in
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future periods (tax base), and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset.

10. Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability or asset, whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger or smaller than they would be if such recovery or settlement were to have no tax consequences.

11. In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return, to the extent permitted by tax legislation. In other cases, the tax base is determined by reference to the tax returns of each entity in the group.

RECOGNITION OF CURRENT TAX LIABILITIES AND CURRENT TAX ASSETS

12. Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.

13. The benefit relating to a tax loss that, to the extent permitted by the tax legislation, can be carried back to recover current tax of a previous period shall be recognised as an asset.

14. When a tax loss is used to recover current tax of a previous period, an entity recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the entity and the benefit can be reliably measured.

RECOGNITION OF DEFERRED TAX LIABILITIES AND DEFERRED TAX ASSETS

Taxable temporary differences

15. A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

(i) is not a business combination; and

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 28.

16. It is inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods. When the carrying amount of the asset exceeds its tax base, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a taxable temporary difference and the obligation to pay the resulting income taxes in future periods is a deferred tax liability. As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. This makes it probable that economic benefits will flow from the entity in the form of tax payments. Therefore, this Standard requires the recognition of all deferred tax liabilities, except in certain circumstances described in paragraphs 15 and 28.
17. Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. The following are examples of temporary differences of this kind which are taxable temporary differences and which therefore result in deferred tax liabilities:

(a) interest revenue is included in accounting profit on a time proportion basis but may be included in taxable profit when cash is collected. The tax base of any receivable recognised in the balance sheet with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected;

(b) depreciation used in determining taxable profit or loss may differ from that used in determining accounting profit or loss. The temporary difference is the difference between the carrying amount of the asset and its tax base which is the original cost of the asset less all deductions permitted by the taxation authorities. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated and a deferred tax asset if tax depreciation is less rapid than accounting depreciation; and

(c) development costs may be capitalised and amortised over future periods in determining accounting profit but deducted in determining taxable profit in the period in which they are incurred. Such development costs have a tax base of nil as they have already been deducted from taxable profit. The temporary difference is the difference between the carrying amount of the development costs and their tax base of nil.

18. Temporary differences also arise when:

(a) the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values in accordance with NCRF 21 - Business combinations, but no equivalent adjustment is made for tax purposes;

(b) assets are revalued and no equivalent adjustment is made for tax purposes;

(c) goodwill arises in a business combination;

(d) the tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an entity benefits from non-taxable government grants related to investments; or

(e) the carrying amount of investments in subsidiaries, associates or interests in joint ventures becomes different from the tax base (see paragraphs 27 to 29).

Deductible temporary differences

19. A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit or loss nor taxable profit or loss.

However, for deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 29.

20. It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow from the entity of resources embodying economic benefits. When resources flow from the entity,
part or all of their amounts may be deductible in determining taxable profit of a period later than the period in
which the liability is recognised. In such cases, a temporary difference exists between the carrying amount of
the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will
be recoverable in the future periods when that part of the liability is allowed as a deduction in determining
taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise
to a deferred tax asset in respect of the income taxes that will be recoverable in future periods.

21. The following are examples of deductible temporary differences that result in deferred tax assets:

(a) retirement benefit costs may be deducted in determining accounting profit as service is
provided by the employee, but deducted in determining taxable profit either when
contributions are paid to a fund by the entity or when retirement benefits are paid by the
entity. A temporary difference exists between the carrying amount of the liability and its tax
base, which is usually nil. Such a deductible temporary difference results in a deferred tax
asset as economic benefits will flow to the entity in the form of a deduction from taxable
profits when contributions or retirement benefits are paid;

(b) research costs are recognised as an expense in the period in which they are incurred but
may not be permitted as a deduction in determining taxable profit or loss until a later
period. The difference between the amount that the taxation authorities will permit as a
deduction in future periods (tax base), and the carrying amount of nil is a deductible
temporary difference that results in a deferred tax asset;

(c) with limited exceptions, an entity recognises the identifiable assets acquired and liabilities
assumed in a business combination at their fair values at the acquisition date. When a
liability assumed is recognised at the acquisition date but the related costs are not
deducted in determining taxable profits until a later period, a deductible temporary
difference arises which results in a deferred tax asset. A deferred tax asset also arises
when the fair value of an identifiable asset acquired is less than its tax base. In both
cases, the resulting deferred tax asset affects goodwill; and

(d) certain assets may be carried at fair value, or may be revalued, without an equivalent
adjustment being made for tax purposes. A deductible temporary difference arises if the
tax base of the asset exceeds its carrying amount.

22. The reversal of deductible temporary differences results in deductions in determining taxable profits of future
periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it
earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises
defered tax assets only when it is probable that taxable profits will be available against which the deductible
temporary differences can be utilised.

Unused tax losses and unused tax credits

23. A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to
the extent that it is probable that future taxable profit will be available against which the unused tax losses
and unused tax credits can be utilised.

24. The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax
credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary
differences. However, the existence of unused tax losses is strong evidence that future taxable profit may
not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred
tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable
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25. An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:
   (a) whether the entity has sufficient taxable temporary differences, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
   (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
   (c) whether the unused tax losses result from identifiable causes which are unlikely to recur.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Reassessment of unrecognised deferred tax assets

26. At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria. Another example is when an entity reassesses deferred tax assets at the date of a business combination or subsequently.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND INTERESTS IN JOINT VENTURES

27. Temporary differences arise when the carrying amount of investments in subsidiaries, associates or interests in joint ventures becomes different from the tax base (which is often cost). Such differences may arise in a number of different circumstances, for example:
   (a) the existence of undistributed profits of subsidiaries, associates and joint ventures;
   (b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
   (c) a reduction in the carrying amount of an investment to its recoverable amount.

28. An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:
   (a) the investor is able to control the timing of the reversal of the temporary difference; and
   (b) it is probable that the temporary difference will not reverse in the foreseeable future.

29. An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:
   (a) the temporary difference will reverse in the foreseeable future; and
   (b) taxable profit will be available against which the temporary difference can be utilised.
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MEASUREMENT

30. Current tax liabilities and assets for the current and prior periods shall be measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates (and related tax laws) that have been enacted by the end of the reporting period.

31. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted by the end of the reporting period.

32. Current and deferred tax assets and liabilities shall be measured using the tax rates (and tax laws) that have been enacted. However, announcements of tax rates (and tax laws) by the government to be enacted in the future, tax assets and liabilities may be measured using the announced tax rate (and tax laws).

33. The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Thus, an entity measures the liabilities and assets for deferred tax using the tax rate and tax base that are consistent with the expected manner of settlement or recovery of the amount of the corresponding assets or liabilities.

34. Deferred tax liabilities and assets shall not be discounted.

35. The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

RECOGNITION OF CURRENT AND DEFERRED TAX

Items recognised in the income statement

36. Current and deferred tax shall be recognised as income or an expense and included in the income statement for the period, except to the extent that the tax arises from:

(a) a transaction or event which is recognised, in the same or a different period, outside of the income statement; or

(b) a business combination.

37. Most deferred tax liabilities and deferred tax assets arise where income or expense is included in accounting profit in one period, but is included in taxable profit or loss in a different period. Thus, the resulting deferred tax is recognised in the income statement.

38. The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:

(a) a change in tax rates or tax laws;

(b) a reassessment of the recoverability of deferred tax assets; or

(c) a change in the expected manner of recovery of an asset.

The resulting deferred tax is recognised in the income statement, except to the extent that it relates to items previously recognised outside the income statement.
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Items recognised outside the income statement

39. Current tax and deferred tax shall be recognised outside the income statement if the tax relates to items that are recognised, in the same or a different period, outside the income statement.

40. NCRF 13 – Tangible assets does not specify whether an entity should transfer each year from revaluation surplus to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an entity makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of a tangible asset.

PRESENTATION

Tax assets and tax liabilities – Offset

41. An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:
   (a) has a legally enforceable right to set off the recognised amounts; and
   (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

42. An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:
   (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
   (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Tax assets and tax liabilities – Expense and income

43. Tax expense (or income) related to profit or loss from operating activities shall be presented in the income statement.

DISCLOSURE

44. The major components of tax expense (income) shall be disclosed separately.

45. Components of tax expense (or income) may include:
   (a) current tax expense (income);
   (b) any adjustments recognised in the period for current tax of prior periods;
   (c) the amount of deferred tax expense (or income) relating to the origination and reversal of temporary differences;
   (d) the amount of deferred tax expense (or income) relating to changes in tax rates or the imposition of new taxes;
   (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current or deferred tax expense;
   (f) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset; and
   (g) the amount of tax expense (or income) relating to those changes in accounting policies and errors that are included in the income statement in accordance with NCRF 4 –
Accounting policies, changes in accounting estimates and errors, because they cannot be accounted for retrospectively.

46. The following shall also be disclosed separately:

(a) the aggregate current and deferred tax relating to items that are accounted for directly to equity;

(b) an explanation of the relationship between tax expense (or income) and accounting profit in either or both of the following forms:
   (i) a numerical reconciliation between tax expense (or income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the tax law in which the applicable tax rate is computed; or
   (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the tax law in which the applicable tax rate is computed;

(c) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;

(d) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;

(e) the aggregate amount of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, for which deferred tax liabilities have not been recognised;

(f) in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
   (i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
   (ii) the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet;

(g) in respect of discontinued operations, the tax expense relating to:
   (i) the gain or loss on discontinuance; and
   (ii) the profit or loss from the operating activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.

47. An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.
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OBJECTIVE
1. The objective of this Standard is to prescribe the accounting treatment for tangible assets, namely concerning to their recognition as assets, the determination of carrying amounts and the related depreciation charges and impairment losses.

SCOPE
2. This Standard shall be applied in accounting for tangible assets except when another Standard requires or permits a different accounting treatment (for example NCRF 17 – Leases).
3. This Standard does not apply to:
   (a) tangible assets classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations;
   (b) biological assets related to agricultural activity (see NCRF 11 - Agriculture and biological assets);
   (c) the recognition and measurement of exploration and evaluation assets (see NCRF 15 - Mineral resources); or
   (d) mineral rights and mineral reserves such as oil, natural gas and similar non regenerative resources.

However, this Standard applies to tangible assets used to develop or maintain the assets described in (b)–(d).
4. An entity shall apply this Standard to assets that are being constructed or developed for future use as investment properties, but still not meet the definition of investment property under NCRF 16 – Investment property.

RECOGNITION
5. The cost of a tangible item shall be recognised as an asset if, and only if:
   (a) it is probable that future economic benefits associated with the item will flow to the entity;
   and
   (b) the cost of the item can be measured reliably.

6. An entity evaluates under this recognition principle all its tangible assets costs at the time they are incurred. These costs include costs incurred initially to acquire or construct a tangible asset item and costs incurred subsequently to add to, replace part of, or service it.

Initial costs
7. Tangible assets items may be acquired for safety or environmental reasons. The acquisition of such items, although not directly increasing the future economic benefits of any particular existing tangible asset, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.

Subsequent costs
8. Under the recognition principle in paragraph 5, an entity does not recognise in the carrying amount of a tangible asset item of the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred and may include expenditures with repairs and maintenance of the tangible asset.
9. Parts of some tangible assets items may require replacement at regular intervals. Other tangible assets items may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building. Under the recognition principle in paragraph 5, an entity recognises in the carrying amount of a tangible asset item the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with paragraphs 48 and 49.

10. A condition of continuing to operate a tangible asset item (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the tangible asset item as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection is derecognised.

MEASUREMENT AT RECOGNITION

11. A tangible asset item that qualifies for recognition as an asset shall be measured at its cost.

Elements of cost

12. The cost of a tangible asset item comprises:

(a) its purchase price, including import duties and non refundable taxes, after deducting trade discounts and rebates;

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

13. Examples of directly attributable costs to a tangible asset item are:

(a) costs of employee benefits (as defined in NCRF 19 - Employee benefits) arising directly from the construction or acquisition of the tangible asset item;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition; and

(f) professional fees.

14. Examples of costs that are not costs of a tangible asset item are:

(a) costs of opening a new facility;

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

(c) costs of conducting business in a new location or with a new class of customer, including costs of staff training; and
15. Recognition of costs in the carrying amount of a tangible asset item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of a tangible asset item:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item’s output builds up; and

(c) costs of relocating or reorganising part or all of an entity’s operations.

16. 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 (see NCRF 9 - Inventories). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. NCRF 27 - Borrowing costs establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed tangible asset item.

**Measurement of cost**

17. The cost of a tangible asset item is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with NCRF 27 – Borrowing costs.

18. One or more tangible asset items may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. If one non-monetary asset is exchanged for another the cost of such item is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

19. The cost of a tangible asset item held by a lessee under a finance lease is determined in accordance with NCRF 17 - Leases.

20. The carrying amount of a tangible asset item may be reduced by government grants in accordance with NCRF 26 - Accounting for government grants and disclosure of government assistance.

**MEASUREMENT AFTER RECOGNITION**

21. An entity shall choose either the cost model in paragraph 22 or the revaluation model in paragraph 23 as its accounting policy and shall apply that policy to an entire class of tangible assets.

**Cost model**

22. After recognition as an asset, a tangible asset item shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
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TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 - ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 13 - Tangible assets

Revaluation model

23. After recognition as an asset, a tangible asset item whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

24. The fair value of a tangible asset item is usually determined from market based evidence by appraisal that is normally undertaken by professionally qualified valuers.

25. The frequency of revaluations depends upon the changes in fair values of the tangible asset items being revalued. When tangible asset items experience significant and volatile changes in fair value, it is necessary an annual revaluation. Such frequent revaluations are unnecessary for tangible asset items with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

26. When a tangible asset item is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

   (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its depreciated replacement cost;

   (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 28 and 29.

27. If a tangible asset item is revalued, the entire class of the tangible asset to which that asset belongs shall be revalued.

28. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in equity under the heading of “revaluation surplus”. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

29. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised directly in equity, as revaluation surplus, to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

30. The revaluation surplus included in equity may be transferred directly to retained earnings when the asset is derecognised when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss of the reporting period.

31. The effects of taxes on income, if any, resulting from the revaluation of the tangible asset are recognised and disclosed in accordance with NCRF 12 - Current and deferred income taxes.
Depreciation

32. Each tangible asset item, or each part of that item with a cost that is significant in relation to the total cost of the item, shall be depreciated separately. However, when one or more significant parts of an item may have a useful life and the same depreciation method may be grouped in determining the depreciation charge.

33. The depreciation charge for each reporting period shall be recognised in profit or loss unless it is included in the carrying amount of another asset (for example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories).

Depreciable amount and depreciation period

34. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

35. The residual value and the useful life of an asset shall be reviewed at least at each financial year-end. When expectations related to these variables differ from previous estimates, the corresponding changes shall be accounted for as a change in an accounting estimate in accordance with NCRF 4 - Accounting policies, changes in accounting estimates and errors.

36. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

37. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NCRF 22 – Non-current assets held for sale and discontinued operations, and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

38. The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset.

39. The useful life of an asset is defined in terms of the asset’s expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

40. The following factors shall be considered in determining the useful life of an asset:

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

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme;

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset;

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
41. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

42. If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs.

**Depreciation method**

43. The depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.

44. The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with NCRF 4 – Accounting policies, changes in accounting estimates and errors.

45. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset’s residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

**Impairment**

46. To determine whether a tangible asset item is impaired, an entity applies NCRF 18 - Impairment of assets. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

**Compensation for impairment**

47. Compensation from third parties for tangible assets items that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

**DERECOGNITION**

48. The carrying amount of a tangible asset item shall be derecognised:

   (a) on disposal; or

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

49. The gain or loss arising from the derecognition of a tangible asset item shall be included in profit or loss when the item is derecognised (unless NCRF 17 – Leases requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.
DISCLOSURE

50. The financial statements shall disclose, for each class of tangible assets:
   
   (a) the measurement bases used for determining the gross carrying amount;
   
   (b) the depreciation methods used;
   
   (c) the useful lives or the depreciation rates used;
   
   (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
   
   (e) a reconciliation of the carrying amount at the beginning and end of the period showing:

   (i) additions;
   
   (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NCRF 22 – Non-current assets held for sale and discontinued operations;
   
   (iii) acquisitions through business combinations;
   
   (iv) increases or decreases resulting from revaluations under paragraphs 23, 28 and 29 and from impairment losses recognised or reversed in equity in accordance with NCRF 18 – Impairment of assets;
   
   (v) impairment losses recognised and impairment losses reversed in profit or loss in accordance with NCRF 18 - Impairment of assets;
   
   (vi) depreciation;
   
   (vii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
   
   (viii) other changes in the carrying amount during the period.

51. The financial statements shall also disclose:

   (a) the existence of restrictions on title, and amounts of tangible assets pledged as security for liabilities;
   
   (b) the amount of expenditures recognised in the carrying amount of a tangible asset item in the course of its construction;
   
   (c) the amount of contractual commitments for the acquisition of tangible assets; and
   
   (d) if it is not disclosed separately in the income statement, the amount of compensation from third parties for tangible assets items that were impaired, lost or given up that is included in profit or loss.

52. If items of tangible assets are stated at revalued amounts, the following shall be disclosed:

   (a) the effective date of the revaluation;
   
   (b) whether an independent valuer was involved;
   
   (c) the methods and significant assumptions applied in estimating the items fair values;
(d) the extent to which the items’ fair values were determined directly by reference to observable prices in an active market or recent market transactions (on arm’s length terms) or were estimated using other valuation techniques;

(e) for each revalued class of tangible asset, the carrying amount that would have been recognised had the assets been carried under the cost model; and

(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance of this surplus to shareholders.
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CHAPTER 1.4 - ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 14 – Intangible assets

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OBJECTIVE

1. The objective of this Standard is to prescribe the accounting treatment and required disclosure for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met.

SCOPE

2. This Standard shall be applied in accounting for intangible assets, except:
   (a) intangible assets that are within the scope of another Standard;
   (b) financial assets, as defined in NCRF 25 - Financial instruments;
   (c) the recognition and measurement of exploration and evaluation assets (see NCRF 15 - Mineral resources); and
   (d) expenditure on the development and extraction of, minerals, oil, natural gas and similar non regenerative resources.

3. Examples of assets that are under the scope of other Standards:
   (a) intangible assets held by an entity for sale in the ordinary course of business (see NCRF 9 - Inventories and NCRF 10 - Construction contracts);
   (b) deferred tax assets (see NCRF 12 – Current and deferred income taxes);
   (c) leases that are within the scope of NCRF 17 – Leases;
   (d) assets arising from employee benefits (see NCRF 19 - Employee benefits);
   (e) financial assets as defined in NCRF 25 – Financial instruments. The recognition and measurement of some financial assets are covered by NCRF 20 - Investments in subsidiaries, associates, and interests in joint ventures;
   (f) goodwill acquired in a business combination (see NCRF 21 - Business combinations);
   (g) non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations.

4. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under NCRF 13 – Tangible assets, or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as tangible asset. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

5. This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (eg a prototype), the physical element of the asset is secondary to its intangible component, ie the knowledge embodied in it.

INTANGIBLE ASSETS

6. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or...
enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, rights, fishing licenses, import quotas, franchises, customer loyalty cards, market share and marketing rights.

7. However, not all the items described in the preceding paragraph meet the definition of an intangible asset, ie identifiability, control over a resource and existence of future economic benefits. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date (see paragraph 46).

**Identifiability**

8. The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

9. An asset is identifiable if it either:
   (a) is capable of being separated from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
   (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

**Control**

10. An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control over the asset. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

**Future economic benefits**

11. The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

**RECOGNITION AND MEASUREMENT**

12. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
   (a) the definition of an intangible asset; and
   (b) the recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

13. An intangible asset shall be recognised if, and only if:
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(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

14. An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

15. An intangible asset shall be measured initially at cost.

Separate acquisition

16. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the recognition criterion related to the probability of future economic benefits will flow to the entity (see paragraph 13(a)) is always considered to be satisfied for separately acquired intangible assets.

17. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

18. The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.

19. Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in NCRF 19 – Employee benefits) arising directly from bringing the asset to its working condition;

(b) professional fees arising directly from bringing the asset to its working condition; and

(c) costs of testing whether the asset is functioning properly.

20. Examples of expenditures that are not part of the cost of an intangible asset are:

(a) costs of introducing a new product or service (including costs of advertising and promotional activities);

(b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(c) administration and other general overhead costs.

21. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset being recognised in profit and loss. For example, the following costs are not included in the carrying amount of an intangible asset:

(a) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
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(b) initial operating losses, such as those incurred while demand for the asset's output builds up.

22. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payment is recognised as interest expense over the period of credit unless it is capitalised in accordance with NCRF 27 - Borrowing costs.

Acquisition as part of a business combination

23. In accordance with NCRF 21 - Business combinations, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the recognition criterion related to the probability of future economic benefits will flow to the entity (see paragraph 13(a)) is always considered to be satisfied for intangible assets acquired in business combinations. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion (see paragraph 131(b)) is always considered to be satisfied for intangible assets acquired in business combinations.

24. In accordance with this Standard and NCRF 21 – Business combinations, an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset. An acquiree’s in-process research and development project meets the definition of an intangible asset when it:

(a) meets the definition of an asset; and

(b) is identifiable, i.e., is separable or arises from contractual or other legal rights.

Measuring the fair value of an intangible asset acquired in a business combination

25. When, for the estimates used to measure an intangible asset’s fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset’s fair value.

26. Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset. The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset’s fair value is estimated.

27. If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm’s length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets.

Subsequent expenditure on an acquired in-process research and development project

28. Research or development expenditure that:

(a) relates to an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset; and
(b) is incurred after the acquisition of that project shall be accounted for in accordance with paragraphs 37 to 43.

29. Applying the requirements in paragraphs 37 to 43 means that subsequent expenditure on an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset is:

(a) recognised as an expense when incurred if it is research expenditure;

(b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 40; and

(c) added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 40.

Acquisition by way of a government grant

30. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant. This may happen when a government transfers or allocates to an entity intangible assets such as airport landing rights, licenses to operate radio or television stations, or rights to access other restricted resources. In accordance with NCRF 26 - Accounting for government grants and disclosure of government assistance, an entity may choose to recognise both the intangible asset and the grant initially at fair value. If an entity chooses not to recognise the asset initially at fair value, the entity recognises the asset initially at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.

Exchanges of assets

31. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. In the case of an exchange of one non-monetary asset for another, the cost of such an intangible asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

32. Paragraph 13(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset for which comparable market transactions do not exist is reliably measurable if:

(a) the variability in the range of reasonable fair value estimates is not significant for that asset; or

(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Internally generated goodwill

33. Internally generated goodwill shall not be recognised as an asset.

34. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (ie it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be
Internally generated intangible assets

35. To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(a) a research phase; and

(b) a development phase.

36. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research phase

37. No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

38. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognised as an expense when it is incurred.

39. Examples of research activities are:

(a) activities aimed at obtaining new knowledge;

(b) the search for, evaluation and final selection of, applications of research findings or other knowledge;

(c) the search for alternatives for materials, devices, products, processes, systems or services; and

(d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

40. An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its
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development.

41. Examples of development activities are:

   (a) the design, construction and testing of pre-production or pre-use prototypes and models;
   (b) the design of tools, jigs, moulds and dies involving new technology;
   (c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
   (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

42. To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles in NCRF 18 - Impairment of assets. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in NCRF 18 - Impairment of assets.

43. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets as they cannot be distinguished from the cost of developing the business as a whole.

Cost of an internally generated intangible asset

44. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

   (a) costs of materials and services used or consumed in generating the intangible asset;
   (b) costs of employee benefits (as defined in NCRF 19 – Employee benefits) arising from the generation of the intangible asset;
   (c) fees to register a legal right; and
   (d) amortisation of patents and licenses that are used to generate the intangible asset.

45. The following are not components of the cost of an internally generated intangible asset:

   (a) Administrative, selling and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
   (b) identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
   (c) expenditure on training staff to operate the asset.

RECOGNITION OF AN EXPENSE

46. Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:

   (a) it forms part of the cost of an intangible asset that meets the recognition criteria; or
   (b) the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date (see NCRF 21 – Business combinations).

47. In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the entity recognises such
expenditure when incurred. Examples of expenditure that is recognised as an expense when it is incurred include:

(a) expenditure on start-up activities, unless this expenditure is included in the cost of an item of tangible assets in accordance with NCRF 13 – Tangible assets. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business or expenditures for starting new operations or launching new products or processes;
(b) expenditure on training activities;
(c) expenditure on advertising and promotional activities;
(d) expenditure on relocating or reorganising part or all of an entity.

Past expenses not to be recognised as an asset

48. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

MEASUREMENT AFTER RECOGNITION

49. An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost model

50. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model

51. After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the balance sheet date the carrying amount of the asset does not differ materially from its fair value.

52. The revaluation model does not allow:

(a) the revaluation of intangible assets that have not previously been recognised as assets; or
(b) the initial recognition of intangible assets at amounts other than cost.

53. The revaluation model is applied after an asset has been initially recognised at cost. However, if only part of the cost of an intangible asset is recognised as an asset because the asset did not meet the criteria for recognition until part of the way through the process, the revaluation model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received by way of a government grant and recognised at a nominal amount (see paragraph 30).

54. If an intangible asset is revalued, any accumulated amortisation at the date of the revaluation is either:

(a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
(b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.
55. If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

56. If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

57. If an intangible asset’s carrying amount is increased as a result of a revaluation, the increase shall be recognised in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

58. If an intangible asset’s carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised directly in equity as revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that asset.

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

USEFUL LIFE

60. An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

61. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised, and an intangible asset with an indefinite useful life is not.

62. Many factors are considered in determining the useful life of an intangible asset, including:

(a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

(b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

(c) technical, technological, commercial or other types of obsolescence;

(d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

(e) expected actions by competitors or potential competitors;

(f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity’s ability and intention to reach such a level;

(g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
63. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a reacquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.

64. There may be both economic and legal factors influencing the useful life of an intangible asset. Economic factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to these benefits. The useful life is the shorter of the periods determined by these factors.

65. Existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:

(a) there is evidence, possibly based on experience, that the contractual or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;
(b) there is evidence that any conditions necessary to obtain renewal will be satisfied; and
(c) the cost to the entity of renewal is not significant when compared with the future economic benefits expected to flow to the entity from renewal.

INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

Amortisation period and amortisation method

66. The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NCRF 22 – Non-current assets held for sale or discontinued operations, and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each accounting period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset (For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories).

67. A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the unit of production method which, for the purposes of this Standard, have the same definition as given in NCRF 13 - Tangible assets. The entity selects the method that best reflects the expected pattern of consumption of future economic benefits embodied in the asset and it should be applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. Rarely exists persuasive evidence to justify a method of amortisation for intangible assets with useful lives that results in a certain amount of accumulated depreciation less than is determined in the straight-line method.
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Residual value

68. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
   
   (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
   
   (b) there is an active market for the asset and:
       
       (i) residual value can be determined by reference to that market; and
       
       (ii) it is probable that such a market will exist at the end of the asset’s useful life.

Review of amortisation period and amortisation method

69. The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with NCRF 4 – Accounting policies, changes in accounting estimates and errors.

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

70. An intangible asset with an indefinite useful life shall not be amortised.

71. In accordance with NCRF 18 – Impairment of assets, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount. This test shall be made annually, and whenever there is an indication that the intangible asset may be impaired.

Review of useful life assessment

72. The useful life of an intangible asset that is not being amortised shall be reviewed each accounting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with NCRF 4 – Accounting policies, changes in accounting estimates and errors.

73. In accordance with NCRF 18 – Impairment of assets, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.

RECOVERABILITY OF THE CARRYING AMOUNT—IMPAIRMENT LOSSES

74. To determine whether an intangible asset is impaired, an entity applies NCRF 18 – Impairment of assets. That Standard explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

RETIREMENTS AND DISPOSALS

75. An intangible asset shall be derecognised:

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

76. The gain or loss arising from the derecognition of an intangible asset shall be recognised in profit or loss when the asset is derecognised (unless NCRF 17 – Leases requires otherwise on a sale and leaseback).
Such gain or loss shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. Gains shall not be classified as revenue.

77. According to the principle of recognition referred to in paragraph 12, an entity recognises in the carrying amount of an intangible asset the cost of a replacement for part of that asset when incurred if the recognition criteria are met. The amount of the carrying amount of the part that is replaced shall be derecognised accordingly.

78. Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully amortised or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NCRF 22 – Non-current assets held for sale or discontinued operations.

DISCLOSURE

79. The financial statements shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
(b) the amortisation methods used for intangible assets with finite useful lives;
(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
(d) the line item of the income statement in which any amortisation of intangible assets is included;
(e) a reconciliation of the carrying amount at the beginning and end of the period showing:
   (i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;
   (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NCRF 22 – Non-current assets held for sale or discontinued operations;
   (iii) increases or decreases during the period resulting from revaluations under paragraphs 51, 57 and 58 and from impairment losses recognised or reversed in other comprehensive income in accordance with NCRF 18 – Impairment of assets;
   (iv) impairment losses recognised and reversed in profit or loss during the period in accordance with NCRF 18 – Impairment of assets;
   (v) any amortisation recognised during the period;
   (vi) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
   (vii) other changes in the carrying amount during the period.

80. The financial statements shall also disclose:

(a) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving
these reasons, the entity shall describe the factors that played a significant role in determining that the asset has an indefinite useful life;

(b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity’s financial statements;

(c) for intangible assets acquired by way of a government grant and initially recognised at fair value:
   (i) the fair value initially recognised for these assets;
   (ii) their carrying amount; and
   (iii) whether they are measured after recognition under the cost model or the revaluation model.

(d) the existence of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities;

(e) the amount of contractual commitments for the acquisition of intangible assets.

81. If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:

(a) by class of intangible assets:
   (i) the effective date of the revaluation;
   (ii) the carrying amount of revalued intangible assets; and
   (iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model;

(b) the amount of the revaluation surplus, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and

(c) the methods and significant assumptions applied in estimating the assets fair values.

82. In case of research and development expenditure, an entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.
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OBJECTIVE

1. The objective of this NIFR is to specify the financial reporting for the exploration for and evaluation of mineral resources.

2. Although this Standard allows an entity to apply the existing accounting policies and practices for exploration and evaluation expenditures, this Standard also requires:
   (a) entities that recognise exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with NCRF 18 - Impairment of assets;
   (b) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

SCOPE

3. This Standard applies to the accounting by an entity of expenditures made with the exploration and evaluation of mineral resources, but does not address other aspects of accounting by entities engaged in the exploration and evaluation of mineral resources.

4. An entity shall not apply this Standard to expenditures incurred:
   (a) before the exploration for and evaluation of mineral resources (such as expenditures incurred before the entity has obtained the legal rights to explore a specific area); and
   (b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

RECOGNITION OF EXPLORATION AND EVALUATION ASSETS

5. When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 5 of NCRF 4 - Accounting policies, changes in accounting estimates and errors.

MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS

Measurement at recognition

6. Exploration and evaluation assets shall be measured at cost.

Elements of cost of exploration and evaluation assets

7. An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):
   (a) acquisition of rights to explore;
   (b) topographical, geological, geochemical and geophysical studies;
   (c) exploratory drilling;
   (d) trenching;
   (e) sampling; and
   (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.
8. Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The Conceptual Framework and NCRF 14 - Intangible assets provide guidance on the recognition of assets arising from development.

9. An entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources in accordance with NCRF 24 - Provisions, contingent liabilities and contingent assets.

Measurement after recognition

10. After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in NCRF 13 – Tangible assets, or the model in NCRF 14 – Intangible assets) it shall be consistent with the classification of the related assets.

Changes in accounting policies

11. An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in NCRF 4 – Accounting policies, changes in accounting estimates and errors.

PRESENTATION

Classification of exploration and evaluation assets

12. An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

13. Some exploration and evaluation assets are treated as intangible (eg concession rights), whereas others are tangible (eg vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification of exploration and evaluation assets

14. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

IMPAIRMENT

Recognition and measurement

15. Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When this happens, an entity shall measure, present and disclose any resulting impairment loss in accordance with NCRF 18 - Impairment of assets, except as provided by paragraph 17 below.

16. One or more of the following facts and circumstances are examples (not exhaustive) that an entity should test exploration and evaluation assets for impairment:

(a) the period for which the entity has the right to explore in the specific area has expired during the period (or will expire in the near future), and is not expected to be renewed;

(b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

(d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test and recognise the related impairment loss (if any) as an expense in accordance with NCRF 18 - Impairment of assets.

**Specifying the level at which exploration and evaluation assets are assessed for impairment**

17. An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with NCRF 7 – Operating segments reporting.

**DISCLOSURE**

18. An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources, namely.

(a) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets;

(b) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

19. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either NCRF 13 – Tangible assets or NCRF 14 – Intangible assets, consistent with how the assets are classified.
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OBJECTIVE
1. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

SCOPE
2. This Standard shall be applied in the recognition, measurement and disclosure of investment property.
3. For the purposes of this Standard:
   (a) Investment property is an asset (land or a 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, rather than for:
      i. use in the production or supply of goods or services or for administrative purposes; or
      ii. sale in the ordinary course of business.
   (b) Owner-occupied property is property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services or for administrative purposes.
4. The following are examples of investment property:
   (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business;
   (b) land held for a currently undetermined future use. If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation;
   (c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases;
   (d) a building that is vacant but is held to be leased out under one or more operating leases.
5. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
   (a) assets intended for sale in the ordinary course of business or in the process of construction or development for such sale, for example, assets acquired exclusively with a view to subsequent disposal in the near future or for development and resale;
   (b) property being constructed or developed on behalf of third parties (see NCRF10 - Construction Contracts);
   (c) owner-occupied property, including (among other things) assets held for future use as owner-occupied property, assets held for future development and subsequent use as owner-occupied property, assets occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
   (d) assets that is being constructed or developed for future use as investment property. The NCRF 13 - Tangible assets applies to those assets until the construction or development is completed, at which time they become investment property and when this Standard will apply. However, this Standard applies to investment property that are already being developed for a new future continued use as an investment property;
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NCRF 16 – Investment property

(e) property that is leased to another entity under a finance lease.

6. Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property. Paragraph 28(c) requires an entity to disclose these criteria when classification is difficult.

7. In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 3. Therefore, the lessor treats the property as investment property in its individual financial statements.

RECOGNITION

8. Investment property shall be recognised as an asset when, and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost of the investment property can be measured reliably.

9. The investment property costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

MEASUREMENT AT RECOGNITION

10. An investment property shall be measured initially at its cost including the transaction costs.

11. The cost of a self-constructed investment property is its cost at the date the construction or development is completed. By that date, an entity applies to NCRF 13 - Tangible assets.

MEASUREMENT AFTER RECOGNITION

Accounting policy

12. An entity shall choose as its accounting policy either the fair value model or the cost model prescribed in the following paragraphs and shall apply that policy to all of its investment property.

13. Regardless of the accounting policy chosen for the investment property, an entity may choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property.

14. When a property interest held by a lessee under an operating lease is classified as an investment property the fair value model shall be applied.

Fair value model

15. After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 17. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

16. The fair value of investment property shall reflect market conditions at the balance sheet date. A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.

17. There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first
acquires an investment property that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value are not available. In such cases, the entity shall measure that investment property using the cost model in NCRF 13 – *Tangible assets*. The residual value of the investment property shall be assumed to be zero.

18. If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

**Cost model**

19. After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with NCRF 13 – *Tangible assets* requirements for that model, other than those that meet the criteria to be classified as held for sale and discontinued operations which shall be measured in accordance with the same Standard.

**TRANSFERS**

20. Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property;
- (d) commencement of an operating lease to another party, for a transfer from inventories to investment property; or
- (e) end of construction or development, for a transfer of assets under construction or development (covered by the NCRF 13 - *Tangible assets*) to investment property.

21. For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property’s deemed cost for subsequent accounting in accordance with NCRF 13 - *Tangible assets* or NCRF 9 – *Inventories*, shall be its fair value at the date of change in use.

22. If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply NCRF 13 - *Tangible assets* up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with NCRF 13 - *Tangible assets* and its fair value in the same way as a revaluation in accordance with the same Standard.

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

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

25. An investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

26. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss in the period of the retirement or disposal.

27. Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.

DISCLOSURE

28. An entity shall disclose:

(a) whether it applies the fair value model or the cost model;

(b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;

(c) when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business;

(d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;

(e) the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(f) the amounts recognised in profit or loss for:
   (i) rental income from investment property;
   (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
   (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal;

(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

29. If an entity applies the fair value model to measure investment property shall additionally disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:
30. When an entity can not determine the fair value reliably, and measures investment property using the cost model (for example, in the exceptional cases referred to in paragraph 17), the reconciliation required in the previous paragraph shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

(a) a description of the investment property;
(b) an explanation of why fair value cannot be determined reliably;
(c) if possible, the range of estimates within which fair value is highly likely to lie; and
(d) on disposal of investment property not carried at fair value:
   (i) the fact that the entity has disposed of investment property not carried at fair value;
   (ii) the carrying amount of that investment property at the time of sale; and
   (iii) the amount of gain or loss recognised.

31. In addition to the disclosures required by paragraph 28, an entity that applies the cost model shall disclose:

(a) the depreciation methods used;
(b) the useful lives or the depreciation rates used;
(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
   (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
   (ii) additions resulting from acquisitions through business combinations;
   (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations;
   (iv) depreciation;
(v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with NCRF 18 – Impairment of assets;

(vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(vii) transfers to and from inventories and owner-occupied property; and

(viii) other changes in the carrying amount during the period; and

(e) the fair value of investment property. In the exceptional cases described in paragraph 17, when an entity cannot determine the fair value of the investment property reliably, it shall disclose:

(i) a description of the investment property;

(ii) an explanation of why fair value cannot be determined reliably; and

(iii) if possible, the range of estimates within which fair value is highly likely to lie.
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OBJECTIVE
1. The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

SCOPE
2. This Standard shall be applied in accounting for all leases other than:

   (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and
   (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

However, this Standard shall not be applied as the basis of measurement for:

   (a) property held by lessees that is accounted for as investment property (see NCRF 16 - Investment property);
   (b) investment property provided by lessors under operating leases (see NCRF 16 - Investment property);
   (c) biological assets held by lessees under finance leases (see NCRF 11 – Agriculture and biological assets); or
   (d) biological assets provided by lessors under operating leases (see NCRF 11 – Agriculture and biological assets).

CLASSIFICATION OF LEASES
3. For purposes of this Standard, a lease is 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.

The definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the asset upon the fulfilment of agreed conditions.

4. The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset’s economic life and of gain from appreciation in value or realisation of a residual value.

5. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

6. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

   (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
   (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
   (c) the lease term is for the major part of the economic life of the asset even if title is not
transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

7. Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee; and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

8. The examples and indicators in preceding paragraphs are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease.

9. Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs 4 to 8 if the changed terms had been in effect at the inception of the lease, the revised agreement is regarded as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

10. Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease.

11. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analysed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 10. The buildings element is classified as a finance or operating lease in accordance with paragraphs 4 to 9.

12. Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments are allocated between the two elements (land and the buildings) in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.
For a lease of land and buildings in which the amount that would initially be recognised for the land element is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 4 to 9. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

Separate measurement of the land and buildings elements is not required when the lessee’s interest in both land and buildings is classified as an investment property in accordance with NCRF 16 – Investment property, and the fair value model is adopted.

In accordance with NCRF 16 – Investment property, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognised. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee’s property interest so that it is no longer classified as investment property. This will be the case if, for example, the lessee:

(a) occupies the property, which is then transferred to owner-occupied property at a deemed cost equal to its fair value at the date of change in use; or

(b) grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance lease to the third party, although it may be accounted for as an operating lease by the third party.

LEASES IN THE FINANCIAL STATEMENTS OF LESSEES

Finance leases

Initial recognition

At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee’s incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.

If such lease transactions are not reflected in the lessee’s balance sheet, the economic resources and the level of obligations of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognised in the lessee’s balance sheet both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognised in the statement of financial position at the same amounts except for any initial direct costs of the lessee that are added to the amount recognised as an asset.

It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets. If for the presentation of liabilities in the balance sheet a distinction is
made between current and non-current liabilities, the same distinction is made for lease liabilities.

Subsequent measurement

20. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

21. 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, and the depreciation recognised shall be calculated in accordance with NCRF 13 – Tangible assets and NCRF 14 – Intangible assets. 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.

22. To determine whether a leased asset has become impaired, an entity applies NCRF 18 - Impairment of assets.

Operating leases

23. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

LEASES IN THE FINANCIAL STATEMENTS OF LESSORS

Finance leases

Initial recognition

24. Lessors shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease.

25. Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable (equivalent to the lessee payment) is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.

26. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognised as an expense when the selling profit is recognised, which for finance lease is normally at the commencement of the lease term.

Subsequent measurement

27. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.
TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 –ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 17 – Leases

28. A lessor aims to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the lessor’s net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

29. Estimated unguaranteed residual values used in computing the lessor’s gross investment in the lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately.

30. An asset under a finance lease that is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations shall be accounted for in accordance with that Standard.

31. Manufacturer or dealer lessors shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.

32. Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

(a) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and

(b) finance income over the lease term.

33. The sales revenue recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the entity’s policy for outright sales.

34. Costs incurred by a manufacturer or dealer lessor in connection with negotiating and arranging a finance lease are recognised as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer’s or dealer’s selling profit.

Operating leases

35. Lessors shall present assets subject to operating leases in their balance sheets, according to the nature of the asset.

36. Lease income from operating leases shall be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

37. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

38. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.
39. The depreciation policy for depreciable leased assets shall be consistent with the lessor’s normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with NCRF 13 – Tangible assets and NCRF 14 – Intangible assets.

40. To determine whether a leased asset has become impaired, an entity applies NCRF 18 – Impairment of assets.

SALE AND LEASEBACK TRANSACTIONS

41. A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

42. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

43. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

44. For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.

45. For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with NCRF 18 – Impairment of assets.

46. Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

DISCLOSURE IN THE FINANCIAL STATEMENTS OF LESSEES

47. Lessees shall, in addition to meeting the requirements of NCRF 25 – Financial instruments, make the following disclosures:

**Finance leases**

(a) for each class of asset, the net carrying amount at the balance sheet date;

(b) a reconciliation between the total of future minimum lease payments at balance sheet date, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the balance sheet date, and their present value, for each of the following periods:

   (i) not later than one year;

   (ii) later than one year and not later than five years;

   (iii) later than five years.

(c) contingent rents recognised as an expense in the period;
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(d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date;

(e) a general description of the lessee’s material leasing arrangements including the following:
   (i) the basis on which contingent rent payable is determined;
   (ii) the existence and terms of renewal or purchase options and escalation clauses; and
   (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Operating leases

(f) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
   (i) not later than one year;
   (ii) later than one year and not later than five years;
   (iii) later than five years.

(g) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date;

(h) lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments;

(i) a general description of the lessee’s significant leasing arrangements including, but not limited to, the following:
   (i) the basis on which contingent rent payable is determined;
   (ii) the existence and terms of renewal or purchase options and escalation clauses; and
   (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

DISCLOSURE IN THE FINANCIAL STATEMENTS OF LESSORS

Finance leases

48. Lessors shall, in addition to meeting the requirements in NCRF 25 – Financial instruments, disclose the following:

(a) a reconciliation between the gross investment in the lease at the end balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the following periods:
   (i) not later than one year;
   (ii) later than one year and not later than five years;
   (iii) later than five years.
(b) unearned finance income;
(c) the unguaranteed residual values accruing to the benefit of the lessor;
(d) the accumulated allowance for uncollectible minimum lease payments receivable;
(e) contingent rents recognised as income in the period;
(f) a general description of the lessor’s material leasing arrangements.

**Operating leases**

(g) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
   (i) not later than one year;
   (ii) later than one year and not later than five years;
   (iii) later than five years.

(h) total contingent rents recognised as an income in the period; and

(i) a general description of the lessor’s leasing arrangements.
CHAPTER 1.4 – ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 18 – Impairment of assets

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ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 18 – Impairment of assets

OBJECTIVE

1. The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Standard:
   (a) requires the entity to recognise an impairment loss; and
   (b) specifies when an entity should reverse an impairment loss and prescribes disclosures.

SCOPE

2. This Standard shall be applied in accounting for the impairment of all assets, other than:
   (a) inventories (see NCRF 9 - Inventories);
   (b) assets arising from construction contracts (see NCRF 10 - Construction contracts);
   (c) deferred tax assets (see NCRF 12 – Current and deferred income taxes);
   (d) assets arising from employee benefits (see NCRF 19 - Employee benefits);
   (e) financial assets that are within the scope of NCRF 25 - Financial instruments;
   (f) investment property that is measured at fair value (see NCRF 16 - Investment property);
   (g) biological assets related to agricultural activity that are measured at fair value less costs to sell (see NCRF 11 – Agriculture and biological assets);
   (h) non-current assets (or disposal groups) classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations.

3. This Standard applies to assets that are carried at revalued amount (ie fair value) in accordance with other Standards, such as the revaluation model in NCRF 13 – Tangible assets. Identifying whether a revalued asset may be impaired depends on the basis used to determine fair value:
   (a) if the asset’s fair value is its market value, the only difference between the asset’s fair value and its fair value less costs to sell is the direct incremental costs to dispose of the asset:
      (i) if the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount (ie fair value). In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated;
      (ii) if the disposal costs are not negligible, the fair value less costs to sell of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount (ie fair value). In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.
   (b) if the asset’s fair value is determined on a basis other than its market value, its revalued amount (ie fair value) may be greater or lower than its recoverable amount. Hence, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.
IDENTIFYING AN ASSET THAT MAY BE IMPAIRED

4. An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraph 7 describes some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except as described in paragraph 6, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.

5. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

6. Irrespective of whether there is any indication of impairment, an entity shall also:
   (a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period;
   (b) test goodwill acquired in a business combination for impairment annually.

7. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

   External sources of information
   (a) during the period, an asset’s market value has declined significantly more than would be expected as a result of the passage of time or normal use;
   (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
   (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset’s value in use and decrease the asset’s recoverable amount materially;
   (d) the carrying amount of the net assets of the entity is more than its market capitalisation;

   Internal sources of information
   (e) evidence is available of obsolescence or physical damage of an asset;
   (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
   (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The above list is not exhaustive. An entity may identify other indications that an asset may be impaired and
these would also require the entity to determine the asset’s recoverable amount or, in the case of goodwill, perform an impairment test in accordance with paragraphs 44 to 54.

8. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognised for the asset.

MEASUREMENT RECOVERABLE AMOUNT

9. It is not always necessary to determine both an asset’s fair value less costs to sell and its value in use. If either of these amounts exceeds the asset’s carrying amount, the asset is not impaired and it is not necessary to estimate the recoverable amount.

10. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. However, sometimes it will not be possible to determine fair value less costs to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In this case, the entity may use the asset’s value in use as its recoverable amount.

11. If there is no reason to believe that an asset’s value in use materially exceeds its fair value less costs to sell, the asset’s fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

12. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs unless either:

(a) the asset’s fair value less costs to sell is higher than its carrying amount; or

(b) the asset’s value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined.

Measuring the recoverable amount of an intangible asset with an indefinite useful life

13. Paragraph 6 requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset’s recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

(a) if the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;

(b) the most recent recoverable amount calculation resulted in an amount that exceeded the asset’s carrying amount by a substantial margin; and

(c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the asset’s carrying amount is remote.
Fair value less costs to sell

14. The best evidence of an asset’s fair value less costs to sell is a price in a binding sale agreement in an arm’s length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

15. If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset’s market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

16. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the balance sheet date, from the disposal of the asset in an arm’s length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.

Value in use

17. The following elements shall be reflected in the calculation of an asset’s value in use:

   (a) an estimate of the future cash flows the entity expects to derive from the asset;
   (b) expectations about possible variations in the amount or timing of those future cash flows;
   (c) the time value of money, represented by the current market risk-free rate of interest;
   (d) the price for bearing the uncertainty inherent in the asset; and
   (e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

18. Estimating the value in use of an asset involves the following steps:

   (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
   (b) applying the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

19. In measuring value in use an entity shall:

   (a) base cash flow projections on reasonable and supportable assumptions that represent management’s best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;
   (b) base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset’s performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and
   (c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a
steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

20. Estimates of future cash flows shall include:

   (a) projections of cash inflows from the continuing use of the asset;

   (b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

   (c) net cash flows, if any, to be received for the disposal of the asset at the end of its useful life.

21. To avoid double-counting, estimates of future cash flows do not include:

   (a) cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and

   (b) cash outflows that relate to obligations that have been recognised as liabilities (for example, payables, pensions or provisions).

22. Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

   (a) a future restructuring to which an entity is not yet committed; or

   (b) improving or enhancing the asset’s performance.

23. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. When a cash-generating unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

24. Estimates of future cash flows shall not include:

   (a) cash inflows or outflows from financing activities; or

   (b) income tax receipts or payments.

25. The estimate of net cash flows to be received for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm’s length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

26. The estimate of net cash flows to be received for the disposal of an asset at the end of its useful life is determined in a similar way to an asset’s fair value less costs to sell, except that, in estimating those net cash flows:
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(a) an entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used;

(b) the entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset’s continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

Foreign currency future cash flows

27. Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount rate

28. The discount rates shall be a pre-tax rates that reflect current market assessments of:

(a) the time value of money; and

(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

29. This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review. However, the discount rates used to measure an asset’s value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

30. When an asset specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. Appendix A provides additional guidance on estimating the discount rate in such circumstances.

RECOGNISING AND MEASURING AN IMPAIRMENT LOSS

31. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

32. An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in NCRF 13 – Tangible assets). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

33. An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised in equity to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.

34. When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.

35. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
36. If an impairment loss is recognised, any related deferred tax assets or liabilities are determined in accordance with NCRF 12 – Current and deferred income taxes, by comparing the revised carrying amount of the asset with its tax base.

CASH-GENERATING UNITS AND GOODWILL

Identifying the cash-generating unit to which an asset belongs

37. If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset’s cash-generating unit).

38. The recoverable amount of an individual asset cannot be determined if:

(a) the asset’s value in use cannot be estimated to be close to its fair value less costs to sell (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

(b) the asset does not generate cash inflows that are largely independent of those from other assets.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset’s cash-generating unit.

39. Identification of an asset’s cash-generating unit involves judgement. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

40. If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management’s best estimate of future price(s) that could be achieved in arm’s length transactions in estimating:

(a) the future cash inflows used to determine the asset’s or cash-generating unit’s value in use; and

(b) the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

41. Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

Recoverable amount and carrying amount of a cash-generating unit

42. The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

43. The carrying amount of a cash-generating unit:

(a) includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit’s value in use; and

(b) does not include the carrying amount of any recognised liability, unless the recoverable
44. For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer’s cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:

(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and

(b) not be larger than an operating segment determined in accordance with NCRF 7 – Operating segments reporting.

45. If the initial allocation of goodwill acquired in a business combination cannot be completed before the end of the annual accounting period in which the business combination is effected, that initial allocation shall be completed before the end of the first annual accounting period beginning after the acquisition date.

46. In accordance with NCRF 21 - Business combinations, if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

(a) accounts for the combination using those provisional values; and

(b) recognises any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognised in the combination before the end of the annual accounting period in which the combination is effected. When this is the case, the entity discloses the information required by the current Standard.

47. If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

(a) included in the carrying amount of the operation when determining the gain or loss on disposal; and

(b) measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

48. If an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganised units.

Testing cash-generating units with goodwill for impairment

49. When, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be
tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit’s carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognised in accordance with paragraph 56.

50. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss in accordance with paragraph 56.

**Timing of impairment tests**

51. The impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

52. If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.

53. If, in accordance with the preceding paragraph, there may be an indication of an impairment of an asset within the unit containing the goodwill, the entity tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, if there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill, the entity tests the cash-generating unit for impairment first, and recognises any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

54. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:

- (a) the assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
- (b) the most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
- (c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

**Corporate assets**

55. In testing a cash-generating unit for impairment, an entity shall identify all the corporate assets that relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset:
(a) can be allocated on a reasonable and consistent basis to that unit, the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount. Any impairment loss shall be recognised in accordance with paragraph 56;

(b) cannot be allocated on a reasonable and consistent basis to that unit, the entity shall:

   (i) compare the carrying amount of the unit, excluding the corporate asset, with its recoverable amount and recognise any impairment loss in accordance with paragraph 56;

   (ii) identify the smallest group of cash-generating units that includes the cash-generating unit under review and to which a portion of the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis; and

   (iii) compare the carrying amount of that group of cash-generating units, including the portion of the carrying amount of the corporate asset allocated to that group of units, with the recoverable amount of the group of units. Any impairment loss shall be recognised in accordance with paragraph 56.

Impairment loss for a cash-generating unit

56. An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

   (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

   (b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised in accordance with paragraph 32.

57. In allocating an impairment loss in accordance with the preceding paragraph, an entity shall not reduce the carrying amount of an asset below the highest of:

   (a) its fair value less costs to sell (if determinable);

   (b) its value in use (if determinable); and

   (c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (or group of units).

58. After the requirements in paragraphs 56 and 57 have been applied, a liability shall be recognised for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another Standard.

REVERSING AN IMPAIRMENT LOSS

59. An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.
60. In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:

**External sources of information**

(a) the asset's market value has increased significantly during the period;
(b) significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated;
(c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

**Internal sources of information**

(d) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs;
(e) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

61. If there is an indication that an impairment loss recognised for an asset other than goodwill may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value may need to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is reversed for the asset.

62. An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 65, be increased to its recoverable amount. That increase is a reversal of an impairment loss.

63. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. Paragraph 75 requires an entity to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

(a) a change in the basis for recoverable amount (ie whether recoverable amount is based on fair value less costs to sell or value in use);
(b) if recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows or in the discount rate; or
(c) if recoverable amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.

64. An asset’s value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, an impairment loss is not reversed
just because of the passage of time, even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an impairment loss for an individual asset

65. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

66. Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the Standard applicable to the asset.

67. A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in NCRF 13 – Tangible assets). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.

68. A reversal of an impairment loss on a revalued asset is recognised in equity and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.

69. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversing an impairment loss for a cash-generating unit

70. A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph 67.

71. In allocating a reversal of an impairment loss for a cash-generating unit in accordance with the preceding paragraph, the carrying amount of an asset shall not be increased above the lower of:

(a) its recoverable amount (if determinable); and

(b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

Reversing an impairment loss for goodwill

72. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

DISCLOSURE

73. An entity shall disclose the following for each class of assets:

(a) the amount of impairment losses recognised in profit or loss during the period and the line items of the income statement in which those impairment losses are included;

(b) the amount of reversals of impairment losses recognised in profit or loss during the period.
and the line items of the income statement in which those impairment losses are reversed;

(c) the amount of impairment losses and the amount of reversals of impairment losses on revalued assets recognised in equity during the period.

74. An entity that reports segment information in accordance with NCRF 7 – Operating segments reporting, shall disclose for each reportable segment the amount of impairment losses and the amount of reversals of impairment losses recognised in profit or loss and in equity during the period.

75. An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:

(a) the events and circumstances that led to the recognition or reversal of the impairment loss;

(b) the amount of the impairment loss recognised or reversed;

(c) for an individual asset:

(i) the nature of the asset; and

(ii) if the entity reports segment information in accordance with NCRF 7 – Operating segments reporting, the reportable segment to which the asset belongs.

(d) for a cash-generating unit:

(i) a description of the cash-generating unit;

(ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information, by reportable segment; and

(iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount, a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.

(e) whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use;

(f) if recoverable amount is fair value less costs to sell, the basis used to determine this amount:

(g) if recoverable amount is value in use, the discount rates used in the current estimate and previous estimate (if any) of value in use.

76. An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with the preceding paragraph:

(a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses;

(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

77. If, in accordance with paragraph 45, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the balance sheet date, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains
78. An entity shall disclose the information required by (a)–(f) below for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives:

(a) the carrying amount of goodwill allocated to the unit (or group of units);
(b) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (or group of units);
(c) the basis on which the unit’s (or group of units’) recoverable amount has been determined (ie value in use or fair value less costs to sell);
(d) if the unit’s (group of units’) recoverable amount is based on value in use:
   (i) a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit’s (group of units’) recoverable amount is most sensitive;
   (ii) a description of management’s approach to determining the values assigned to each key assumption, whether those values reflect past experience or, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;
   (iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;
   (iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated;
   (v) the discount rates applied to the cash flow projections.
(e) if the unit’s (or group of units’) recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:
   (i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit’s (or group of units’) recoverable amount is most sensitive;
   (ii) a description of management’s approach to determining the values assigned to each key assumption, whether those values reflect past experience or, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
(f) if a reasonably possible change in a key assumption on which management has based its
determination of the unit’s (or group of units’) recoverable amount would cause the unit’s (or group of units’) carrying amount to exceed its recoverable amount:

(i) the amount by which the unit’s (or group of units’) recoverable amount exceeds its carrying amount;

(ii) the value assigned to the key assumption;

(iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit’s (or group of units’) recoverable amount to be equal to its carrying amount.

79. If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (or groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumptions and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

(a) the aggregate carrying amount of goodwill and the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (or groups of units);

(b) a description of the key assumption(s);

(c) a description of management’s approach to determining the values assigned to each key assumption, whether those values reflect past experience or, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;

(d) if a reasonably possible change in a key assumption would cause the aggregate of the units’ (groups of units’) carrying amounts to exceed the aggregate of their recoverable amounts:

(i) the amount by which the aggregate of the units’ (groups of units’) recoverable amounts exceeds the aggregate of their carrying amounts;

(ii) the values assigned to the key assumptions;

(iii) the amount by which the values assigned to the key assumptions must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units’ (groups of units’) recoverable amounts to be equal to the aggregate of their carrying amounts.
TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.4 - ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 19 – Employee benefits

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ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 19 – Employee benefits

OBJECTIVE

1. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

   (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

   (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

SCOPE

2. This Standard shall be applied by an employer in accounting for all employee benefits provided herein.

3. The employee retirement benefits to which this Standard applies include those provided:

   (a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;

   (b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to State, industry or other plans; and

   (c) by those informal practices that give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.

4. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees and include:

   (a) short-term employee benefits;

   (b) post-employment benefits;

   (c) other long-term employee benefits; and

   (d) termination benefits.

5. Employee benefits include benefits provided to either employees or their dependants and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.

6. An employee may provide services to an entity on a full-time or part-time, and in permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

SHORT-TERM EMPLOYEE BENEFITS

7. Short-term employee benefits include items such as:

   (a) wages, salaries and social security contributions;

   (b) short-term compensated absences (such as paid annual leave and paid sick leave);

   (c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and
8. Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

Recognition and measurement

All short-term employee benefits

9. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

   (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

   (b) as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, NCRF 9 - Inventories and NCRF 13 - Tangible assets).

10. Paragraphs 11 to 18 explain how an entity shall apply this requirement to short-term employee benefits in the form of compensated absences and profit-sharing and bonus plans.

Short-term compensated absences

11. An entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences as follows:

   (a) in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and

   (b) in the case of non-accumulating compensated absences, when the absences occur.

12. An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Profit-sharing and bonus plans

13. An entity shall recognise the expected cost of profit-sharing and bonus payments under when, and only when:

   (a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

   (b) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

14. Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without
ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 19 – Employee benefits

receiving profit-sharing payments.

15. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus.

16. An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit;
(b) the entity determines the amounts to be paid before the financial statements are authorised for issue; or
(c) past practice gives clear evidence of the amount of the entity’s constructive obligation.

17. An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity’s owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense of the period.

18. If profit-sharing and bonus payments are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits.

POST-EMPLOYMENT BENEFITS - DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS

19. Post-employment benefits include, for example:

(a) retirement benefits, such as pensions; and
(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

20. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. Under defined contribution plans:

(a) the entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and
(b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

21. Under defined benefit plans:

(a) the entity’s obligation is to provide the agreed benefits to current and former employees; and
(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in
substance, on the entity.

Multi-employer plans

22. An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:
   
   (a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and
   
   (b) disclose the information required by current Standard.

23. When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan as mentioned in the preceding paragraph, an entity shall:
   
   (a) account for the plan as if it were a defined contribution plan;
   
   (b) disclose the fact that the plan is a defined benefit plan and the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and
   
   (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition any available information about that surplus or deficit, including the basis used to determine that surplus or deficit; and the implications, for the entity.

24. One example of a defined benefit multi-employer plan is one where:
   
   (a) the plan is financed on a pay-as-you-go basis such that: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and
   
   (b) employees’ benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

State plans

25. An entity shall account for a state plan in the same way as for a multi-employer plan.

26. State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by government or by another body which is not subject to control or influence by the reporting entity.

27. Some plans established by an entity provide both compulsory benefits (which substitute for benefits that would otherwise be covered under a state plan) and additional voluntary benefits. Such plans are not state plans.

28. State plans are characterised as defined benefit or defined contribution in nature based on the entity’s obligation under the plan. However, in most state plans, the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own
employees in previous years. For this reason, state plans are normally defined contribution plans.

Insured benefits

29. An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:

(a) pay the employee benefits directly when they fall due; or

(b) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

POST-EMPLOYMENT BENEFITS - DEFINED CONTRIBUTION PLANS

Recognition and measurement

30. When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and

(b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, NCRF 9 - Inventories and NCRF 13 – Tangible assets).

31. Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 55.

Disclosure

32. An entity shall disclose the amount recognised as an expense for defined contribution plans.

POST-EMPLOYMENT BENEFITS - DEFINED BENEFIT PLANS

Recognition and measurement

33. Defined benefit plans may be:

(a) unfunded; or

(b) wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.

34. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity’s ability (and willingness) to make good any shortfall in the fund’s assets. Therefore, the entity is underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.
35. Accounting by an entity for defined benefit plans involves the following steps:

   (a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraph 48) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (see paragraphs 49-62);

   (b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraph 47);

   (c) determining the fair value of any plan assets (see paragraphs 69-71);

   (d) determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognised (see paragraphs 63-66);

   (e) where a plan has been introduced or changed, determining the resulting past service cost (see paragraphs 67 and 68); and

   (f) where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 78 and 79).

   **Accounting for the constructive obligation**

36. An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

37. The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees.

   **Balance sheet**

38. The amount recognised as a defined benefit liability shall be the net total of the following amounts:

   (a) the present value of the defined benefit obligation at the end of the reporting period (see paragraph 46). The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets;

   (b) plus any actuarial gains (less any actuarial losses) not recognised because of the treatment set out in paragraphs 63 and 64;

   (c) minus any past service cost not yet recognised (see paragraph 67);

   (d) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 69-71).

39. An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.
40. This Standard suggests an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

41. The amount determined under paragraph 38 may be negative (an asset). An entity shall measure the resulting asset at the lower of:

   (a) the amount determined under paragraph 38; and
   (b) the total of:

      (i) any cumulative unrecognised net actuarial losses and past service cost (see paragraphs 63, 64 and 67); and
      (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph 55.

42. The application of the preceding paragraph shall not result in a gain being recognised solely as a result of an actuarial loss or past service cost in the current period or in a loss being recognised solely as a result of an actuarial gain in the current period. The entity shall therefore recognise immediately under paragraph 38 the following, to the extent that they arise while the defined benefit asset is determined in accordance with paragraph 41 (b):

   (a) net actuarial losses of the current period and past service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph 41 (b) (ii). If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period shall be recognised immediately under paragraph 38;
   (b) net actuarial gains of the current period after the deduction of past service cost of the current period to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph 41 (b) (ii). If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period shall be recognised immediately under paragraph 38.

43. Preceding paragraph applies to an entity only if it has, at the beginning or end of the accounting period, a surplus in a defined benefit plan and cannot, based on the current terms of the plan, recover that surplus fully through refunds or reductions in future contributions. In such cases, past service cost and actuarial losses that arise in the period, the recognition of which is deferred under paragraph 38, will increase the amount specified in paragraph 41 (b) (i). If that increase is not offset by an equal decrease in the present value of economic benefits that qualify for recognition under paragraph 41 (b) (ii), there will be an increase in the net total specified by paragraph 41 (b) and, hence, a recognised gain. Preceding paragraph prohibits the recognition of a gain in these circumstances. The opposite effect arises with actuarial gains that arise in the period, the recognition of which is deferred under paragraph 38, to the extent that the actuarial gains reduce cumulative unrecognised actuarial losses. Preceding paragraph prohibits the recognition of a loss in these circumstances.

44. An asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial
gains are recognised. An entity recognises an asset in such cases because:

(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit.

**Income Statement**

45. An entity shall recognise the net total of the following amounts in the income statement, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) current service cost;

(b) interest cost;

(c) the expected return on any plan assets and on any reimbursement rights;

(d) actuarial gains and losses;

(e) past service cost;

(f) the effect of any curtailments or settlements; and

(g) the effect of the limit in paragraph 41(b).

**Recognition and measurement - present value of defined benefit obligations and current service cost**

46. The ultimate cost of a defined benefit plan may be influenced by many variables, such as salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:

(a) apply an actuarial valuation method (see paragraph 47);

(b) attribute benefit to periods of service (see paragraph 48); and

(c) make actuarial assumptions (see paragraphs 49-62).

**Actuarial valuation method**

47. An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

**Attributing benefit to periods of service**

48. In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis:

(a) From the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service);
(b) until the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

**Actuarial assumptions**

49. Actuarial assumptions shall be unbiased and mutually compatible.

50. Actuarial assumptions are an entity’s best estimates of the variables that will determine the ultimate cost of providing post-employment benefits and comprise:

   (a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

   (i) mortality, both during and after employment;

   (ii) rates of employee turnover, disability and early retirement;

   (iii) the proportion of plan members with dependants who will be eligible for benefits; and

   (iv) claim rates under medical plans; and

   (b) financial assumptions, dealing with items such as:

   (i) the discount rate (see paragraph 55);

   (ii) future salary and benefit levels (see paragraphs 56–58);

   (iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs 59–62); and

   (iv) the expected rate of return on plan assets (see paragraphs 75–77).

51. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

52. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

53. An entity determines the discount rate and other financial assumptions in nominal terms, unless estimates in real (inflation adjusted) terms are more reliable, for example, in a hyperinflationary economy.

54. Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

**Actuarial assumptions - discount rate**

55. The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields, at the end of the reporting period, on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

**Actuarial assumptions - salaries, benefits and medical costs**

56. Post-employment benefit obligations shall be measured on a basis that reflects:
(a) estimated future salary increases;
(b) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period; and
(c) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or
(ii) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

57. Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

58. Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

59. Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

60. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity’s own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

61. The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

62. Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the end of the reporting period (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments.

Actuarial gains and losses

63. In measuring its defined benefit liability in accordance with paragraph 38, an entity shall, subject to paragraph 42, recognise a portion (as specified in the following paragraph) of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

(a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

(b) 10% of the fair value of any plan assets at that date.

These limits shall be calculated and applied separately for each defined benefit plan.
64. The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined in accordance with the preceding paragraph, divided by the expected average remaining working lives of the employees participating in that plan. However, an entity may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. An entity may apply such systematic methods to actuarial gains and losses even if they are within the limits specified in the preceding paragraph.

65. If an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them directly in equity, providing it does so for all of its defined benefit plans and for all of its actuarial gains and losses. Under these circumstances, any adjustments arising from the limit in paragraph 41 (b) shall also be recognised in equity.

66. Actuarial gains and losses and adjustments arising from the limit in paragraph 41 (b) that have been recognised in equity shall be recognised immediately in retained earnings. They shall not be reclassified to the income statement in a subsequent period.

Past service cost

67. In measuring its defined benefit liability under paragraph 38, an entity shall, subject to paragraph 42, recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an entity shall recognise past service cost immediately.

68. Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, the entity recognises past service cost over that period, regardless of the fact that the cost refers to employee service in previous periods.

Recognition and measurement - plan assets

Fair value of plan assets

69. The fair value of any plan assets is deducted in determining the amount recognised in the balance sheet under paragraph 38. When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows.

70. Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits (for example, trade and other payables and liabilities resulting from derivative financial instruments).

71. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations, as described in paragraph 45 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

72. When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In all other respects, an entity shall treat that asset in the same way as plan assets. In the income statement, the expense relating to a defined benefit obligation is recognised immediately.
73. Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets when the preceding paragraph does not apply.

74. When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 72 deals with such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recognised under paragraph 38; in all other respects, the entity treats that asset in the same way as plan assets. In particular, the defined benefit liability recognised under paragraph 38 is increased (reduced) to the extent that net cumulative actuarial gains (losses) on the defined benefit obligation and on the related reimbursement right remain unrecognised under paragraphs 63 and 64.

Return on plan assets

75. The expected return on plan assets is one component of the expense recognised in the income statement. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss; it is included with the actuarial gains and losses on the defined benefit obligation in determining the net amount that is compared with the limits of the 10% specified in paragraph 63.

76. The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected return on plan assets reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

77. In determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

Curtailments and settlements

78. An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall comprise:

(a) any resulting change in the present value of the defined benefit obligation;
(b) any resulting change in the fair value of the plan assets;
(c) any related actuarial gains and losses and past service cost that, under paragraphs 63 and 67, had not previously been recognised.

79. Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Presentation

Offset

80. An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:

(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and
(b) intends either to settle the obligations on a net basis, or to realise the surplus in one plan.
and settle its obligation under the other plan simultaneously.

81. The offsetting criteria are similar to those established for financial instruments in NCRF 25 - Financial instruments.

Disclosure

82. An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

83. An entity shall disclose the following information about defined benefit plans:

(a) the entity’s accounting policy for recognising actuarial gains and losses;

(b) a general description of the type of plan;

(c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:

(i) current service cost;

(ii) interest cost;

(iii) contributions by plan participants;

(iv) actuarial gains and losses;

(v) foreign currency exchange rate changes on plans measured in a currency different from the entity’s presentation currency;

(vi) benefits paid;

(vii) past service cost;

(viii) business combinations;

(ix) curtailments; and

(x) settlements.

(d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.

(e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 72 showing (separately, if applicable), the effects during the period attributable to each of the following:

(i) expected return on plan assets;

(ii) actuarial gains and losses;

(iii) foreign currency exchange rate changes on plans measured in a currency different from the entity’s presentation currency;

(iv) contributions by the employer;

(v) contributions by plan participants;

(vi) benefits paid;
(vii) business combinations; and
(viii) settlements.

(f) a reconciliation of the present value of the defined benefit obligation in preceding (c) and the fair value of the plan assets in preceding (e) to the assets and liabilities recognised in the statement of financial position, showing at least:

(i) the net actuarial gains or losses not recognised in the balance sheet (see paragraph 63);
(ii) the past service cost not recognised in the balance sheet (see paragraph 67);
(iii) any amount not recognised as an asset, because of the limit in paragraph 41(b);
(iv) the fair value at the balance sheet date of any reimbursement right recognised as an asset in accordance with paragraph 72 (with a brief description of the link between the reimbursement right and the related obligation); and
(v) the other amounts recognised in the balance sheet.

(g) the total expense recognised in profit or loss for each of the following, and the line item in which they are included:

(i) current service cost;
(ii) interest cost;
(iii) expected return on plan assets;
(iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 75;
(v) actuarial gains and losses;
(vi) past service cost;
(vii) the effect of any curtailment or settlement; and
(viii) the effect of the limit in paragraph 41(b).

(h) the total amount recognised in equity for each of the following:

(i) actuarial gains and losses; and
(ii) the effect of the limit in paragraph 41(b).

(i) for entities that recognise actuarial gains and losses in other comprehensive income in accordance with paragraph 65, the cumulative amount of actuarial gains and losses recognised in equity;

(j) for each major category of plan assets (for example equity instruments, debt instruments, and property), the percentage or amount that each major category constitutes of the fair value of the total plan assets;

(k) the amounts included in the fair value of plan assets for:

(i) each category of the entity’s own financial instruments; and
(ii) any property occupied by, or other assets used by, the entity.
(l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets;

(m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 72;

(n) the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:
   (i) the discount rates;
   (ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
   (iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 72;
   (iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
   (v) medical cost trend rates; and
   (vi) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

(o) the effect of an increase and decrease in the medical cost trend rates on:
   (i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
   (ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant.

(p) the amounts for the current annual period and previous four annual periods of:
   (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
   (ii) the experience adjustments arising on the plan liabilities (and assets) expressed either as an amount or a percentage of the plan liabilities (and assets) at the balance sheet date.

(q) the employer’s best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting period.

OTHER LONG-TERM EMPLOYEE BENEFITS

84. Other long-term employee benefits include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave;

(b) jubilee or other long-service benefits;
85. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Furthermore, the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. For these reasons, this Standard requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits as follows:

(a) actuarial gains and losses are recognised immediately and no limits of the 10% specified in paragraph 63 are applied; and
(b) all past service cost is recognised immediately.

86. The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:

(a) the present value of the defined benefit obligation at the end of the reporting period (see paragraph 46);
(b) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 69 and 70).

In measuring the liability, an entity shall apply paragraphs 33-62, excluding paragraphs 38 and 45. An entity shall apply paragraph 72 in recognising and measuring any reimbursement right.

87. For other long-term employee benefits, an entity shall recognise the net total of the following amounts as expense or income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) current service cost;
(b) interest cost;
(c) the expected return on any plan assets (see paragraphs 75-77) and on any reimbursement right recognised as an asset (see paragraph 72);
(d) actuarial gains and losses, which shall all be recognised immediately;
(e) past service cost, which shall all be recognised immediately; and
(f) the effect of any curtailments or settlements (see paragraphs 78 and 79).

TERMINATION BENEFITS

Recognition

88. An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

(a) terminate the employment (of an employee or group of employees) before the normal retirement date; or
89. An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:

(a) the location, function, and approximate number of employees whose services are to be terminated;

(b) the termination benefits for each job classification or function; and

(c) the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.

90. An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

(a) enhancement of retirement benefits or of other post-employment benefits; and

(b) salary until the end of a specified period.

91. Termination benefits do not provide an entity with future economic benefits and are recognised as an expense immediately.

92. Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph 78).

Measurement

93. Where termination benefits fall due more than one year after the reporting period, they shall be discounted using the discount rate specified in paragraph 55.

94. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.
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OBJECTIVE

1. This Standard provides practical guidance on procedures for consolidation and establishes the accounting treatment of investments in subsidiaries, investments in associates and jointly controlled entities in the separate financial statements.

GENERAL SCOPE

2. This Standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent, as well as in accounting for investments in subsidiaries and associates in the separate financial statements.

3. This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place.

4. However, it does not apply to associates and venturers’ interests in jointly controlled entities held by:
   (a) venture capital organisations; or
   (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with NCRF 25 - Financial instruments.

CONSOLIDATED FINANCIAL STATEMENTS

   Specific scope

5. Consolidated financial statements shall include all subsidiaries of the parent.

6. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is power:
   (a) over more than half of the voting rights by virtue of an agreement with other investors;
   (b) to govern the financial and operating policies of the entity under a statute or an agreement;
   (c) to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
   (d) to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

7. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

8. In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.
9. A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by NCRF 7 – Operating segments reporting help to explain the significance of different business activities within the group.

Consolidation procedures

10. In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

(a) the carrying amount of the parent’s investment in each subsidiary and the parent’s portion of equity of each subsidiary are eliminated (NCRF 21 – Business combinations, which describes the treatment of any resultant goodwill);

(b) non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;

(c) non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent’s ownership interests in them. Non-controlling interests in the net assets consist of:

(i) the amount of those non-controlling interests at the date of the original combination calculated in accordance with NCRF 21 – Business combinations;

(ii) the non-controlling interests’ share of changes in equity since the date of the combination.

11. When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

12. Intragroup balances and transactions, including income, expenses, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and tangible assets, are eliminated in full. NCRF 12 – Current and deferred income taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

13. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

14. When, in accordance with the preceding paragraph, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent’s financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent’s financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

15. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions.
and other events in similar circumstances.

16. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

17. The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in NCRF 21 – Business combinations. Income and expenses of the subsidiary shall be based on the values of the assets and liabilities recognised in the parent’s consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated income statement after the acquisition date shall be based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date when the parent ceases to control the subsidiary.

18. Non-controlling interests shall be presented in the consolidated balance sheet within equity, separately from the equity of the owners of the parent.

19. Profit or loss and each component of equity are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

20. If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the parent computes its share of profit or loss after adjusting for the dividends on such shares, whether or not dividends have been declared.

21. Changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent.

Loss of control

22. A parent can lose control of a subsidiary with or without a change in absolute or relative ownership levels. This could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It also could occur as a result of a contractual agreement.

23. If a parent loses control of a subsidiary, it:

(a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;

(b) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of profit or loss attributable to them);

(c) recognises the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;

(d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
24. If a parent loses control of a subsidiary, the parent shall account for all amounts recognised in equity in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in equity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. For example, if a subsidiary has available-for-sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in equity in relation to those assets. Similarly, if a revaluation surplus previously recognised in equity would be transferred directly to retained earnings on the disposal of the asset, the parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

25. On the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other Standards from the date when control is lost.

26. The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with NCRF 25 - Financial Instruments, or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Accounting for investments in subsidiaries, associates and jointly controlled entities in separate financial statements

27. When a parent prepares separate financial statements, it shall account for investments in subsidiaries, associates and jointly controlled entities either at cost, or in accordance with NCRF 25 - Financial Instruments except for such investments classified as held for sale (or included in a disposal group that is classified as held for sale), in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations, which must be accounted for in accordance with this Standard.

28. Investments in associates and jointly controlled entities and that are accounted for in accordance with NCRF 25 - Financial Instruments in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

INVESTMENTS IN ASSOCIATES

Significant influence

29. If an investor holds, directly or indirectly (eg through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

30. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) representation on the board of directors or equivalent governing body of the investee;
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(b) participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) material transactions between the investor and the investee;

(d) interchange of managerial personnel; or

(e) provision of essential technical information.

31. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

32. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.

33. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

Equity method

34. Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. The investor’s share of the profit or loss of the investee is recognised in the investor’s profit or loss. Distributions received from an investee (for example, dividends) reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor’s proportionate interest in the investee arising from changes in the investee’s equity. Such changes include those arising from the revaluation of tangible assets and from foreign exchange translation differences. The investor’s share of those changes is recognised directly in the equity of the investor.

35. When potential voting rights exist, the investor’s share of profit or loss of the investee and of changes in the investee’s equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

Application of the equity method

36. An investment in an associate shall be accounted for using the equity method except when:

(a) the investment is classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations;

(b) the exception in paragraph 9 of NCRF 1 – Presentation of financial statements, allowing a parent that also has an investment in an associate not to present consolidated financial statements, applies; or

(c) all of the following apply:

(i) the investor is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the
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- equity method;
  - (ii) the investor’s debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange);
  - (iii) the investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
  - (iv) the ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with PGC-NIRF.

37. Investments described in the preceding paragraph, line (a), shall be accounted for in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations.

38. When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

39. An investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance with NCRF 25 - Financial instruments, from that date, provided the associate does not become a subsidiary or a joint venture as defined in this Standard. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognise in profit or loss any difference between:

   (a) the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and
   (b) the carrying amount of the investment at the date when significant influence is lost.

40. When an investment ceases to be an associate and is accounted for in accordance with NCRF 25 - Financial instruments, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with NCRF 25 - Financial instruments.

41. If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in equity in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in equity by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. For example, if an associate has available-for-sale financial assets and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in equity.

42. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in this Standard. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate.

43. A group’s share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries. The holdings of the group’s other associates or joint ventures are ignored for this purpose.
When an associate has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognised in the associate’s financial statements (including the associate’s share of the profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

44. Profits and losses resulting from ‘upstream’ and ‘downstream’ transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor’s financial statements only to the extent of unrelated investors’ interests in the associate. ‘Upstream’ transactions are, for example, sales of assets from an associate to the investor. ‘Downstream’ transactions are, for example, sales of assets from the investor to an associate. The investor’s share in the associate’s profits and losses resulting from these transactions is eliminated.

45. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor’s share of the net fair value of the associate’s identifiable assets and liabilities is accounted for as follows:

- (a) goodwill relating to an associate is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted;
- (b) any excess of the investor’s share of the net fair value of the associate’s identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor’s share of the associate’s profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the investor’s share of the associate’s profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor’s share of the associate’s profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or tangible assets.

46. The most recent available financial statements of the associate are used by the investor in applying the equity method. When the balance sheet date of the investor is different from that of the associate, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.

47. When, in accordance with the preceding paragraph, the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor’s financial statements. In any case, the difference between the end of the reporting period of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference between the balance sheet dates shall be the same from period to period.

48. The investor’s financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

49. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate’s accounting policies to those of the investor when the associate’s financial statements are used by the investor in applying the equity method.

50. If an associate has outstanding cumulative preference shares that are held by parties other than the investor and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends
51. If an investor’s share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor’s net investment in the associate. Losses recognised under the equity method in excess of the investor’s investment in ordinary shares are applied to the other components of the investor’s interest in an associate in the reverse order of their seniority (ie priority in liquidation).

52. After the investor’s interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

**Impairment losses**

53. After application of the equity method, including recognising the associate’s losses in accordance with paragraph 51, the investor applies the requirements of NCRF 25 – *Financial instruments*, to determine whether it is necessary to recognise any additional impairment loss with respect to the investor’s net investment in the associate or with respect to the investor’s interest in the associate that does not constitute part of the net investment.

54. Because goodwill that forms of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment in accordance with NCRF 18 – *Impairment of assets*, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in NCRF 25 – *Financial instruments* indicates that the investment may be impaired. In determining the value in use of the investment, an entity estimates:

   (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

   (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

**INTERESTS IN JOINT VENTURES**

**Specific scope**

55. A venturer with an interest in a jointly controlled entity is exempted from paragraphs 66 to 70 (proportionate consolidation) and 71 and 72 (equity method) when it meets the following conditions:

   (a) the interest is classified as held for sale in accordance with NCRF 22 - *Non-current assets held for sale and discontinued operations*;

   (b) the exception in paragraph 9 of – *Presentation of financial statements* allowing a parent that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or

   (c) all of the following apply:

      (i) the venturer is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its owners, including those not otherwise entitled to vote, have
been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;

(ii) the venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange);

(iii) the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and

(iv) the ultimate or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with PGC-NIRF.

56. Joint ventures take many different forms and structures. This Standard identifies three broad types: jointly controlled operations, jointly controlled assets and jointly controlled entities.

**Jointly controlled operations**

57. The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own tangible assets and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

58. In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Therefore, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

**Jointly controlled assets**

59. Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

60. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits through its share of the jointly controlled asset.

61. In respect of its interest in jointly controlled assets, a venturer shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;

(b) any liabilities that it has incurred;

(c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
(e) any expenses that it has incurred in respect of its interest in the joint venture.

Therefore, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

**Jointly controlled entities**

62. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

63. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

64. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with PGC-NIRF.

65. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognised in its financial statements as an investment in the jointly controlled entity.

**Financial statements of a venturer**

*Proportionate consolidation*

66. A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation or the equity method. When proportionate consolidation is used, one of the two reporting formats identified in paragraph 68 shall be used.

67. The application of proportionate consolidation means that the balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The income statement of the venturer includes its share of the income and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in this Standard.

68. Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements. Both these reporting formats result in the reporting of identical amounts of profit or loss and of each major classification of assets, liabilities, income and expenses; both formats are acceptable for the purposes of this Standard.

69. Whichever format is used, it is inappropriate to offset any assets or liabilities, or any income or expenses, unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.

70. A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

*Equity method*

71. As an alternative to proportionate consolidation, a venturer shall recognise its interest in a jointly controlled
entity using the equity method, in accordance with this Standard.

72. A venturer shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.

Exceptions to proportionate consolidation and equity method

73. Interests in jointly controlled entities that are classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations shall be accounted for in accordance with that Standard.

74. When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using proportionate consolidation or the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

75. When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with NCRF 25 – Financial instruments from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From the date when a jointly controlled entity becomes a subsidiary of an investor, the investor shall account for its interest in accordance with this Standard and NCRF 21 - Business combinations. From the date when a jointly controlled entity becomes an associate of an investor, the investor shall account for its interest in accordance with this Standard. On the loss of joint control, the investor shall measure at fair value any investment the investor retains in the former jointly controlled entity. The investor shall recognise in profit or loss any difference between:

(a) the fair value of any retained investment and any proceeds from disposing of the part interest in the jointly controlled entity; and
(b) the carrying amount of the investment at the date when joint control is lost.

76. When an investment ceases to be a jointly controlled entity and is accounted for in accordance with NCRF 25 – Financial instruments, the fair value of the investment when it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with this Standard.

77. If an investor loses joint control of an entity, the investor shall account for all amounts recognised in equity in relation to that entity on the same basis as would be required if the jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in equity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the investor loses joint control of the entity. For example, if a jointly controlled entity has available-for-sale financial assets and the investor loses joint control of the entity, the investor shall reclassify to profit or loss the gain or loss previously recognised in equity in relation to those assets. If an investor’s ownership interest in a jointly controlled entity is reduced, but the investment continues to be a jointly controlled entity, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in equity.

Transactions between a venturer and a joint venture

78. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.
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79. When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent a reduction in the net realisable value of current assets or an impairment loss.

Reporting interests in joint ventures in the financial statements of an investor

80. An investor in a joint venture that does not have joint control shall account for that investment in accordance with NCRF 25 – Financial instruments or, if it has significant influence in the joint venture, in accordance with this Standard.

Operators of joint ventures

81. Operators or managers of a joint venture shall account for any fees in accordance with NCRF 28 - Revenue.

DISCLOSURE

Consolidated financial statements

82. The following disclosures shall be made in consolidated financial statements:

(a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;

(b) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;

(c) the balance sheet date and the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the parent's financial statements, and the reason for using a different date or period;

(d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances;

(e) a schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parent; and

(f) if control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, recognised in accordance with paragraph 23; and:

(i) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(ii) the line item in the income statement in which the gain or loss is recognised (if not presented separately).

83. The separate financial statements are of a parent shall disclose:

(a) the fact that the financial statements are separate financial statements;

(b) if the parent prepares or not consolidated financial statements;

(c) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest
and, if different, proportion of voting power held;

(d) a description of the method used to account for the investments listed under previous line (c); and

(e) which financial statements of a venturer with interests in a jointly controlled entity, or an investor in an associate, are prepared in accordance with this Standard.

**Investments in associates**

84. The following disclosures shall be made:

(a) the fair value of investments in associates for which there are published price quotations;

(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;

(c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;

(d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;

(e) the balance sheet date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the investor, and the reason for using a different balance sheet date or different period;

(f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;

(g) the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;

(h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 36; and

(i) summarised financial information of associates, either individually or in groups that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.

85. Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor’s share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor’s share of any discontinued operations of such associates shall also be separately disclosed.

86. The investor’s share of changes recognised in equity by the associate shall be recognised by the investor in equity.

87. In accordance with NCRF 24 - Provisions, contingent liabilities and contingent assets the investor shall disclose:
(a) its share of the contingent liabilities of an associate incurred jointly with other investors; and

(b) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

**Interests in joint ventures**

88. A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:

(a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;

(b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

(c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

89. A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

(a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and

(b) its share of the capital commitments of the joint ventures themselves.

90. A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.

91. A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.
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OBJECTIVE

1. The objective of this Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statement about a business combination and its effects. To accomplish that, this Standard establishes principles and requirements for how the acquirer:

   (a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

   (b) recognises and measures the goodwill acquired in the business combination; and

   (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SCOPE

2. This Standard applies to a transaction or other event that meets the definition of a business combination. A business combination is a transaction or other event upon which an entity (the acquirer) obtains control of one or more business of another entity (the acquiree).

3. This Standard does not apply to:

   (a) the formation of a joint venture;

   (b) the acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill;

   (c) a combination of entities or businesses under common control.

IDENTIFYING A BUSINESS COMBINATION

4. An entity shall determine whether a transaction or other event is a business combination by applying the definition in this Standard which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition.

5. An acquirer might obtain control of an acquiree in a variety of ways, for example:

   (a) by transferring cash, cash equivalents or other assets (including net assets that constitute a business);

   (b) by incurring liabilities;

   (c) by issuing equity interests;

   (d) by providing more than one type of consideration; or

   (e) without transferring consideration.

6. A business combination may be structured in a variety of ways, which include but are not limited to:

   (a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer;

   (b) one combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners;
(c) all of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity; or

(d) a group of former owners of one of the combining entities obtains control of the combined entity.

THE ACQUISITION METHOD

7. An entity shall account for each business combination by applying the acquisition method which requires:

(a) identifying the acquirer;

(b) determining the acquisition date;

(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

(d) recognising and measuring goodwill or negative goodwill.

Identifying the acquirer

8. For each business combination, one of the combining entities shall be identified as the acquirer.

9. If a business combination has occurred does not clearly indicate which of the combining entities is the acquirer, the following factors shall be considered in making that determination:

(a) In a business combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities;

(b) In a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests;

(c) In addition, other factors and relevant circumstances must be considered in identifying the acquirer, such as:

(i) the relative voting rights in the combined entity after the business combination. The acquirer is usually the entity whose owners (as a group) retain or receive the largest portion of the voting rights in the combined entity;

(ii) the existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest. The acquirer is usually the combining entity whose single owner or organised group of owners holds the largest minority voting interest in the combined entity;

(iii) the composition of the governing body of the combined entity. The acquirer is usually the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity;

(iv) the composition of the senior management of the combined entity. The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity;

(v) the terms of the exchange of equity interests. The acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.
(d) The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entities.

Determining the acquisition date

10. The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree. The date of acquisition is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree.

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

11. As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in the following paragraphs 12 to 25.

Recognition conditions

12. To qualify for recognition, the identifiable assets acquired and liabilities assumed in a business combination must meet the definitions of assets and liabilities in the Conceptual Framework at the acquisition date.

13. The acquirer’s application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. For example, the acquirer recognises the acquired identifiable intangible assets, such as a brand name, a patent or a customer relationship, that the acquiree did not recognise as assets in its financial statements because it developed them internally. The following points provide some guidance on the recognition of intangible assets and operating leases:

(a) Operating leases

The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by the next paragraph.

The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms.

(b) Intangible assets

The acquirer shall recognise, separately from goodwill, the identifiable intangible assets acquired in a business combination. As part of a business combination, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer’s recognised or unrecognised assets. A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill. If the terms of the contract giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognise a settlement gain or loss.

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

14. At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities
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assumed as necessary to apply other Standard subsequently. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

15. The principle of the preceding paragraph shall apply except for classification of a lease contract as either an operating lease or a finance lease. The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement principle

16. The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values.

17. In measuring the acquisition date fair value of an asset that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. In these circumstances, the acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms.

18. For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

Exceptions to the recognition or measurement principles

Exception to the recognition principle

Contingent liabilities

19. The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to NCRF 24 - Provisions, contingent liabilities and contingent assets, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Exceptions to both the recognition and measurement principles

Income taxes

20. The acquirer shall recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with NCRF12 - Current and deferred income taxes.

21. The acquirer shall account for the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with that same Standard.

Employee benefits

22. The acquirer shall recognise and measure a liability (or asset, if any) related to the acquiree’s employee benefit arrangements in accordance with NCRF 19 – Employee benefits.

Indemnification assets

23. The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. As a result, the acquirer obtains
an indemnification asset. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at its acquisition date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary.

Exceptions to the measurement principle

Reacquired rights

24. The acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Assets held for sale

25. The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations at fair value less costs to sell in accordance with that Standard.

Recognising and measuring goodwill or negative goodwill

26. The acquirer shall recognise goodwill as of the acquisition date measured as the excess of:
   (a) the aggregate of:
      (i) the consideration transferred measured in accordance with this Standard, which generally requires acquisition date fair value;
      (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this standard; and
      (iii) in a business combination achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree.
   (b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

27. In a business combination in which the acquirer and the acquiree (or its former owners) exchange only equity interests, the acquisition date fair value of the acquiree’s equity interests may be more reliably measurable than the acquisition date fair value of the acquirer’s equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition date fair value of the acquiree’s equity interests instead of the acquisition date fair value of the equity interests transferred. To determine the amount of goodwill in a business combination in which no consideration is transferred, the acquirer shall use the acquisition date fair value of the acquirer’s interest in the acquiree determined using a valuation technique in place of the acquisition date fair value of the consideration transferred.

Negative goodwill

28. Occasionally, an acquirer will make a negative goodwill purchase, which is a business combination in which the amount in paragraph 26(b) exceeds the aggregate of the amounts specified in the same paragraph (a), i.e., the amount of the fair value of assets acquired and liabilities assumed in a business combination that exceeds the consideration paid for such assets and liabilities. When we conclude the existence of such
excess (negative goodwill, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date.

29. Before recognising a gain on a negative goodwill purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Standard requires to be recognised at the acquisition date for all of the following:

(a) the identifiable assets acquired and liabilities assumed;
(b) the non-controlling interest in the acquiree;
(c) for a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and
(d) the consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Consideration transferred

30. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

31. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date. If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in profit or loss. However, sometimes the transferred assets or liabilities remain within the combined entity after the business combination and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognise a gain or loss in profit or loss on assets or liabilities it controls both before and after the business combination.

Contingent consideration

32. The acquirer shall recognise the acquisition date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

33. The acquirer shall classify an obligation to pay contingent consideration as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability in NCRF 25 - Financial instruments, or other applicable Standard. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met as dealt in the current Standard.

Additional guidance for applying the acquisition method to particular types of business combinations

A business combination achieved in stages

34. In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognise the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in equity. If so, the amount that was recognised in equity shall be recognised on the same
Measurement period

35. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

36. During the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

37. After the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with NCRF 4 - Accounting policies, changes in accounting estimates and errors.

Determining what is part of the business combination transaction

38. The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the business combination began, or they may enter into an arrangement during the negotiations that is separate from the business combination. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination, i.e. amounts that are not part of the exchange for the acquiree. The acquirer shall recognise as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree. Separate transactions shall be accounted for in accordance with the relevant Standards.

39. If the business combination in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

   (a) for a pre-existing non-contractual relationship, fair value;

   (b) for a pre-existing contractual relationship, the lesser of the following amounts:

      (i) the amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items;

      (ii) the amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of the business combination accounting.

Acquisition-related costs
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40. The acquirer shall account for acquisition related costs as expenses in the periods in which the costs are incurred and the services are received, without exceptions. The costs to issue debt or equity securities shall be recognised in accordance with NCRF 25 – Financial instruments.

SUBSEQUENT MEASUREMENT AND ACCOUNTING

41. In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable Standards for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in such cases as reacquired rights, contingent liabilities, indemnification assets and contingent consideration.

Reacquired rights

42. A reacquired right recognised as an intangible asset shall be amortised over the remaining contractual period of the contract in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Contingent liabilities

43. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:

(a) the amount that would be recognised in accordance with NCRF 24 – Provisions, contingent liabilities and contingent assets; and

(b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with NCRF 28 - Revenue.

This requirement does not apply to contracts accounted for in accordance with NCRF 25 – Financial instruments.

Indemnification assets

44. At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management’s assessment of the collectibility of the indemnification asset. The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent consideration

45. Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 16 and 18. However, changes resulting from events after the acquisition date are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity;

(b) Contingent consideration classified as an asset or a liability that:

(i) is a financial instrument and is within the scope of NCRF 25 – Financial instruments.
instruments shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with that Standard;

(ii) is not within the scope of NCRF 25 – Financial instruments shall be accounted for in accordance with NCRF 18 – Impairment of assets or other Standard, as appropriate.

DISCLOSURES

46. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either during the current reporting period, or after the end of the reporting period but before the financial statements are authorised for issue.

47. To meet the objective in preceding paragraph, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

(a) the name and a description of the acquiree;
(b) the acquisition date;
(c) the percentage of voting equity interests acquired;
(d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree;
(e) a qualitative description of the factors that make up the goodwill recognised;
(f) the acquisition date fair value of the total consideration transferred and the acquisition date fair value of each major class of consideration, such as:
   (i) cash;
   (ii) other tangible or intangible assets;
   (iii) liabilities incurred, and
   (iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests.

(g) for contingent consideration arrangements and indemnification assets:
   (i) the amount recognised as of the acquisition date;
   (ii) a description of the arrangement and the basis for determining the amount of the payment; and
   (iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(h) for acquired receivables:
   (i) the fair value of the receivables;
   (ii) the gross contractual amounts receivable; and
   (iii) the best estimate at the acquisition date of the contractual cash flows not
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The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed;

(j) If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose the reasons why the liability cannot be measured reliably;

(k) the total amount of goodwill that is expected to be deductible for tax purposes;

(l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities:

(i) a description of each transaction;

(ii) how the acquirer accounted for each transaction;

(iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

(iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) the disclosure of separately recognised transactions required by (l) shall include the amount of acquisition related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the income statement in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed;

(n) in a negative goodwill purchase:

(i) the amount of any gain recognised and the line item in the income statement in which the gain is recognised; and

(ii) a description of the reasons why the transaction resulted in a gain.

(o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:

(i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and

(ii) for each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value.

(p) in a business combination achieved in stages:

(i) the acquisition date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and

(ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination and the line item in the income statement in which that gain or loss is recognised.
(q) the following additional information:

(i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated income statement for the reporting period; and

(ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this paragraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable.

If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall also disclose the information required by this paragraph.

48. The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

49. To meet the objective in preceding paragraph, the acquirer shall disclose the following information for each material business combination:

(a) if the initial accounting for a business combination is incomplete for particular assets, liabilities, non-controlling interests and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally:

(i) the reasons why the initial accounting for the business combination is incomplete;

(ii) the assets, liabilities, equity interests for which the initial accounting is incomplete; and

(iii) the nature and amount of any measurement period adjustments recognised during the reporting period.

(b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

(i) any changes in the recognised amounts;

(ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) the valuation techniques and key model inputs used to measure contingent consideration.

(c) for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by in NCRF 24 – Provisions, contingent liabilities and contingent assets for each class of provision;

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

(i) the gross amount and accumulated impairment losses at the beginning of the reporting period;
(ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations.

(iii) adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period;

(iv) goodwill included in a disposal group classified as held for sale in accordance with NCRF 22 - Non-current assets held for sale and discontinued operations and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale;

(v) impairment losses recognised during the reporting period in accordance with NCRF 18 – Impairment of assets;

(vi) net exchange rate differences arising during the reporting period;

(vii) any other changes in the carrying amount during the reporting period;

(viii) the gross amount and accumulated impairment losses at the end of the reporting period.

(e) the amount and an explanation of any gain or loss recognised in the current reporting period that both:

(i) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and

(ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity’s financial statements.
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OBJECTIVE

1. The objective of this Standard is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the Standard requires:
   (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease;
   (b) cease the depreciation of assets classified as held for sale;
   (c) assets that meet the criteria to be classified as held for sale to be presented separately in the balance sheet and the results of discontinued operations to be presented separately in the income.

SCOPE

2. This Standard applies to all non-current assets held for sale of an entity. For the purposes of this Standard the definition non-current assets held for sale is extended to disposal groups.

3. The measurement provisions of this Standard do not apply to the following assets (individual assets or disposal groups), which are covered by other Standards:
   (a) deferred tax assets (NCRF12 – Current and deferred income taxes);
   (b) assets arising from employee benefits (NCRF 19 – Employee benefits);
   (c) financial assets within the scope of NCRF 25 - Financial instruments;
   (d) non-current assets that are accounted for in accordance with the fair value model in NCRF 16 – Investment property;
   (e) non-current assets that are measured at fair value less costs to sell in accordance with NCRF 11 – Agriculture and biological assets.

CLASSIFICATION OF NON-CURRENTS ASSETS AS HELD FOR SALE

4. An entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

5. To comply with these classification requirements, an entity shall ensure that:
   (a) the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
   (b) its sale must be highly probable. For this, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets that are to be abandoned

6. An entity shall not classify as held for sale a non-current asset that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.
MEASUREMENT OF NON-CURRENTS ASSETS CLASSIFIED AS HELD FOR SALE

Measurement of a non-current asset

7. An entity shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

8. When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Recognition and reversals of impairment losses

9. An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell. The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Standard, in similar terms to those required in NCRF 18 – Impairment of assets.

10. An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

Changes to a plan of sale

11. If an entity has classified an asset as held for sale, but the criteria are no longer met, the entity shall cease to classify the asset as held for sale.

12. The entity shall measure a non-current asset that ceases to be classified as held for sale at the lower of:

   (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale; and

   (b) its recoverable amount at the date of the subsequent decision not to sell.

PRESENTATION AND DISCLOSURE

13. An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets.

Presenting discontinued operations

14. An entity shall disclose:

   (a) a single amount in the income statement comprising the total of:

      (i) the post-tax profit or loss of discontinued operations, and

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

   (b) an analysis of the single amount referred to in line (a) into:

      (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

      (ii) the related income tax expense as required by NCRF 12 – Current and deferred income taxes;
Gains or losses relating to continuing operations

15. Any gain or loss on the remeasurement of a non-current asset classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.

Presentation of a non-current asset classified as held for sale

16. An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the balance sheet. Those assets and liabilities shall not be offset and presented as a single amount. An entity shall present separately any cumulative income or expense recognised directly in equity relating to a non-current asset classified as held for sale.

Additional disclosures

17. An entity shall disclose the following information in the notes in the period in which a non-current asset has been either classified as held for sale or sold:

(a) a description of the non-current asset;
(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
(c) the gain or loss recognised in accordance with paragraph 9 and, if not separately presented in the income statement, the item of the income statement that includes that gain or loss;
(d) if applicable, the reportable segment in which the non-current asset is presented in accordance with NCRF 7 – Operating segments reporting.
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OBJECTIVE
1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

2. The principal issues are:
   (a) which exchange rate(s) to use; and
   (b) how to report the effects of changes in exchange rates in the financial statements.

SCOPE
3. This Standard shall be applied:
   (a) in accounting for transactions and balances in foreign currencies;
   (a) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or the equity method; and
   (b) in translating an entity’s results and financial position into a presentation currency.

4. This Standard shall not be applied:
   (a) in accounting for those derivative transactions and balances that are within the scope of NCRF 25 - Financial instruments;
   (b) in hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation that are also within the scope of NCRF 25 - Financial instruments;
   (c) in the presentation in a statement of cash flows of the cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see NCRF 2 - Statement of cash flows).

5. For purposes of this Standard:
   (a) Functional currency is the currency of the primary economic environment in which the entity operates;
   (b) Foreign currency is a currency other than the functional currency of the entity;
   (c) Presentation currency is the currency in which the financial statements are presented.

ELABORATION ON THE DEFINITIONS

Functional currency
6. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:
   (a) the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
   (b) the currency of the country whose competitive forces and regulations mainly determine
the sales prices of its goods and services;

(c) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

7. The following factors may also provide evidence of an entity’s functional currency:

(a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated;

(b) the currency in which receipts from operating activities are usually retained.

8. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency;

(b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation’s activities;

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it;

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

9. When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 6 before considering the indicators in paragraphs 7 and 8, which are designed to provide additional supporting evidence to determine an entity’s functional currency.

10. An entity’s functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

Net investment in a foreign operation

11. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity’s net investment in that foreign operation, and is accounted for in accordance with paragraph 24. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

Monetary items

12. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability.
Similarly, a contract to receive (or deliver) a variable number of the entity’s own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g., prepaid rent); goodwill; intangible assets; inventories; tangible assets; and provisions that are to be settled by the delivery of a non-monetary asset.

SUMMARY OF THE APPROACH REQUIRED BY THIS STANDARD

13. In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 6–10. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 16–25.

14. Many reporting entities comprise a number of individual entities. Various types of entities, whether members of a group or otherwise, may have investments in associates, joint ventures or branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 26–35.

15. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with NCRF 20—Investments in subsidiaries, associates and interes in joint ventures, to present its financial statements in any currency (or currencies). If the entity’s presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 26–35.

REPORTING FOREIGN CURRENCY TRANSACTIONS IN THE FUNCTIONAL CURRENCY

Initial recognition

16. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(a) buys or sells goods or services whose price is denominated in a foreign currency;

(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

17. A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

18. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used. For example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.
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Reporting at the balance sheet date

19. At the date of each balance sheet:
   (a) foreign currency monetary items shall be translated using the closing rate;
   (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
   (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

20. The carrying amount of an item is determined in conjunction with other relevant Standards. For example, tangible assets may be measured in terms of fair value or historical cost in accordance with NCRF 13 – Tangible assets. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.

21. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories is the lower of cost and net realisable value in accordance with NCRF 9 - Inventories. Similarly, in accordance with NCRF 18 - Impairment of assets, the carrying amount of an asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:
   (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost); and
   (b) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (eg the closing rate at the balance sheet date).

The effect of this comparison may be that an impairment loss is recognised in the functional currency but would not be recognised in the foreign currency, or vice versa.

Recognition of exchange differences

22. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except as described in paragraph 24.

23. When a gain or loss on a non-monetary item is recognised in equity, any exchange component of that gain or loss shall be recognised in equity. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss. For example, NCRF 13 – Tangible assets, requires some gains and losses arising on a revaluation of tangible assets to be recognised in equity. When such an asset is measured in a foreign currency, this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in equity.

24. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements
when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in a separate component of equity and reclassified from equity to profit or loss on disposal of the net investment in accordance with paragraph 31.

Change in functional currency

25. When there is a change in an entity’s functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously recognised in equity in accordance with paragraphs 24 and 27(c) are not reclassified from equity to profit or loss until the disposal of the operation.

USE OF A PRESENTATION CURRENCY OTHER THAN THE FUNCTIONAL CURRENCY

Translation to the presentation currency

26. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity’s functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

27. The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(a) assets and liabilities for each balance sheet presented (ie including comparatives) shall be translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement presented (including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised in a separate component of equity. These exchange differences result from translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate and on the other hand from translating the opening net assets at a closing rate that differs from the previous closing rate.

Translation of a foreign operation

28. The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see NCRF 20 – Investments in subsidiaries, associates and interests on joint ventures). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises from the circumstances described in paragraph 24, it is recognised in equity and accumulated in a separate component of equity until the disposal of the foreign operation.

29. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting
entity’s financial statements. When this is not done, NCRF 20 – Investments in subsidiaries, associates and interests in joint ventures allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with that Standard. The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation to joint ventures.

30. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph 27.

**Disposal or partial disposal of a foreign operation**

31. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

32. In addition to the disposal of an entity’s entire interest in a foreign operation, the following are accounted for as disposals even if the entity retains an interest in the former subsidiary, associate or jointly controlled entity:

   (a) the loss of control of a subsidiary that includes a foreign operation;

   (b) the loss of significant influence over an associate that includes a foreign operation; and

   (c) the loss of joint control over a jointly controlled entity that includes a foreign operation.

33. On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in equity to the non-controlling interests in that foreign operation.

34. A partial disposal of an entity’s interest in a foreign operation is any reduction in an entity’s ownership interest in a foreign operation, except those reductions in paragraph 32 that are accounted for as disposals.

35. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in equity is reclassified to profit or loss at the time of a write-down.

**TAX EFFECTS OF ALL EXCHANGE DIFFERENCES**

36. Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects. NCRF 12 – Current and deferred income taxes applies to these tax effects.

**DISCLOSURE**

37. An entity shall disclose:

   (a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with NCRF 25 – Financial instruments; and
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(b) net exchange differences recognised in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the accounting period.

38. When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.

39. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.

40. When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency, it shall:

(a) clearly identify the information as supplementary information to distinguish it from the information that complies with IPGC-NIRF;

(b) disclose the currency in which the supplementary information is displayed; and

(c) disclose the entity’s functional currency and the method of translation used to determine the supplementary information.
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CHAPTER 1.4 - ACCOUNTING AND FINANCIAL REPORTING STANDARDS

NCRF 24 - Provisions, contingent liabilities and contingent assets

OBJECTIVE

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

SCOPE

2. This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:

   (a) those resulting from executory contracts, except where the contract is onerous; and
   (b) those covered by another Standard.

   Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

3. This Standard does not apply to financial instruments, including guarantees that are within the scope of NCRF 25 – Financial Instruments.

4. This Standard defines provisions as liabilities of uncertain timing or amount. Sometimes the term ‘provision’ is also used in the context of items such as inventory depreciation, impairment of assets and doubtful debts. These are adjustments to the carrying amounts of assets and are not addressed in this Standard.

PROVISIONS AND OTHER LIABILITIES

5. Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

   (a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
   (b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees.

6. In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term ‘contingent’ is used for liabilities and assets that are not recognised because their 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. In addition, the term ‘contingent liability’ is used for liabilities that do not meet the recognition criteria.

RECOGNITION

Provisions

7. A provision shall be recognised when:

   (a) an entity has a present obligation (legal or constructive) as a result of a past event;
   (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
   (c) a reliable estimate can be made of the amount of the obligation.

   If these conditions are not met, no provision shall be recognised.

   Present obligation

8. In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to
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Give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date.

Past event

9. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) where the settlement of the obligation can be enforced by law; or

(b) in the case of a constructive obligation, where the event creates valid expectations in other parties that the entity will discharge the obligation.

Probable outflow of resources embodying economic benefits

10. For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 45 of this Standard).

Reliable estimate of the obligation

11. The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the balance sheet.

12. In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 45 of this Standard).

Contingent liabilities

13. An entity shall not recognise a contingent liability.

14. A contingent liability is disclosed, as required by paragraph 45 of this Standard, unless the possibility of an outflow of resources embodying economic benefits is remote.

15. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.

16. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent assets

17. An entity shall not recognise a contingent asset.

18. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the
related asset is not a contingent asset and its recognition is appropriate.

19. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

MEASUREMENT

Best estimate

20. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at balance sheet date.

21. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time.

22. The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the balance sheet date.

Risks and uncertainties

23. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

Present value

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

25. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

Future events

26. Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Expected disposal of assets

27. Gains from the expected disposal of assets shall not be taken into account in measuring a provision even if the expected disposal is closely linked to the event giving rise to the provision.

REIMBURSEMENTS

28. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

29. In the income statement, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.
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CHANGES IN PROVISIONS

30. 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 resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

31. Where discounting is used, as per paragraph 24 of this Standard, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as a financial cost.

USE OF PROVISIONS

32. A provision shall be used only for expenditures for which the provision was originally recognised.

33. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

APPLICATION OF THE RECOGNITION AND MEASUREMENT RULES

Future operating losses

34. Provisions shall not be recognised for future operating losses as they do not meet the definition of a liability and the general recognition criteria.

35. An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An entity tests these assets for impairment under NCRF 18 - Impairment of assets.

Onerous contracts

36. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Restructuring

37. A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 7 of this Standard are met.

38. A constructive obligation to restructure arises only when an entity:

(a) has a detailed formal plan for the restructuring identifying at least:
   (i) the business or part of a business concerned;
   (ii) the principal locations affected;
   (iii) the location, function, and approximate number of employees who will be compensated for terminating their services;
   (iv) the expenditures that will be undertaken; and
   (v) when the plan will be implemented.

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

39. A management decision to restructure taken before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the entity has, before that date:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a
sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the balance sheet date, disclosure is required under NCRF 5 - Events after the balance sheet date, if the restructuring is material and non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

40. No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.

41. A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both necessarily entailed by the restructuring, and not associated with the ongoing activities of the entity.

42. A restructuring provision does not include such costs as:
   (a) retraining or relocating continuing staff;
   (b) marketing; or
   (c) investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

DISCLOSURE

43. For each class of provision, an entity shall disclose:
   (a) the carrying amount at the beginning and end of the period;
   (b) additional provisions made in the period, including increases to existing provisions;
   (c) amounts used (ie incurred and charged against the provision) during the period;
   (d) unused amounts reversed during the period; and
   (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

44. Additionally, an entity shall disclose the following for each class of provision:
   (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
   (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events; and
   (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

45. Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the balance sheet date, a brief description of the nature of the contingent liability and, where practicable:
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(a) an estimate of its financial effect, measured under paragraphs 20-27 of this Standard;
(b) an indication of the uncertainties relating to the amount or timing of any outflow; and
(c) the possibility of any reimbursement.

46. Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the balance sheet date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 20-27 of this Standard.

47. Where any of the information required by paragraphs 45 and 46 of this Standard is not disclosed because it is not practicable to do so, that fact shall be stated.

48. In extremely rare cases, disclosure of some or all of the information required by paragraphs 43–46 of this Standard can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.
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OBJECTIVE

1. The objective of this Standard is to establish principles for presenting, classifying, measuring, and recognising financial instruments as well as requirements for disclosing related information. In particular, this Standard:

   (a) establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities;

   (b) establishes rules to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset;

   (c) establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items; and

   (d) to require entities to provide disclosures in their financial statements that enable users to evaluate:

      (i) the significance of financial instruments for the entity’s financial position and performance;

      (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

2. For the purposes of this Standard a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

SCOPE

3. This Standard shall be applied to all types of financial instruments except:

   (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with NCRF 20 – Investments in subsidiaries, associates and interests in joint ventures. However, when that Standard permits an entity to account for those interests applying the current Standard, entities shall apply the disclosure requirements of NCRF 20 – Investments in subsidiaries, associates and interests in joint ventures in addition to those required in this Standard;

   (b) employers’ rights and obligations under employee benefit plans, to which NCRF 19 - Employee benefits applies;

   (c) rights and obligations under leases to which NCRF 17 - Leases applies. However, as regards the measurement and recognition lease receivables recognised by a lessor and finance lease payables recognised by a lessee are subject to the derecognition and impairment provisions of this Standard;

   (d) Regarding the measurement and recognition:

      (i) contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date;

      (ii) loan commitments other than those that the entity designates such commitment as financial liabilities at fair value through profit or loss, loan commitments that
can be settled net in cash or by delivering or issuing another financial instrument (derivatives) or the commitment to provide a loan at a below market interest rate;

(iii) rights to payments to reimburse the entity for expenditure it is required to make to settle a liability recognised as a provision in accordance with NCRF 24 – Provisions, contingent liabilities and contingent assets, or for which, in an earlier period, it recognised a provision in accordance to that Standard.

4. In respect to the presentation, recognition and measurement this Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements.

5. This Standard applies to the disclosure of recognised and unrecognised financial instruments (such as loan commitments).

6. In this Standard, ‘contract’ and ‘contractual’ refer to 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, and thus financial instruments, may take a variety of forms and need not be in writing.

PRESENTATION

Liabilities and equity

7. The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

8. A financial instrument is classified as an equity instrument rather than a financial liability, if, and only if, both conditions below are met:

   (a) The instrument includes no contractual obligation:

      (i) to deliver cash or another financial asset to another entity; or

      (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

   (a) If the instrument will or may be settled in the issuer’s own equity instruments, it is:

      (i) a non derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

      (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose the issuer’s own equity instruments do not include instruments that have all the features to be considered as contracts for the future receipt or delivery of the issuer’s own equity instruments.

   A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer’s own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument.

9. The classification of a financial instrument as a financial liability or equity instrument, under the terms
presented in the previous paragraph, includes, among others, the following situations:

(a) If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability;

(b) If an entity has a contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that varies so that the fair value of the entity’s own equity instruments to be received or delivered equals the amount of the contractual right or obligation, the contract meets the definition of a financial liability;

(c) a contract that will be settled by the entity receiving or delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. In this situation, any consideration received or paid is added or deducted directly to and from equity, respectively;

(d) a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. This is the case even if the contract itself is an equity instrument. When the financial liability is recognised its fair value is reclassified from equity. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity;

(e) a contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability.

10. When a derivative financial instrument gives one party a choice over how it is settled, it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.

**Compound financial instruments**

11. The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments.

12. When the initial carrying amount is allocated to its equity and liability components, the equity component is assigned to the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.

13. In the conversion of a convertible instrument at maturity date, the entity derecognises the liability component and recognises it as equity. The former component of equity remains as equity. On maturity date there is no gain or loss.

**Treasury shares**

14. If an entity reacquires its own equity instruments, those instruments (‘treasury shares’) shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity’s own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity.

**Interest, dividends, losses and gains**

15. Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial
liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be debited by the entity directly to equity, net of any related income tax benefit. Transaction costs of an equity transaction shall be accounted for as a deduction from equity, net of any related income tax benefit.

16. The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends, losses and gains relating to that instrument are recognised as income or expense in profit or loss. Thus, dividend payments on shares wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognised in profit or loss, whereas redemptions or refinancings of equity instruments are recognised as changes in equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.

17. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

**Offsetting a financial asset and a financial liability**

18. A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity:

(a) currently has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

**RECOGNITION, MEASUREMENT OF FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

**EMBEDDED DERIVATIVES**

19. An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e., a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under this Standard if it is a financial instrument and in accordance with other appropriate Standards if it is not a financial instrument.

20. Notwithstanding the previous paragraph, if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:

(a) the embedded derivative(s) does not significantly modify the cash flows that otherwise
would be required by the contract; or

(b) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

21. If an entity is required by this Standard to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid (combined) contract as at fair value through profit or loss.

RECOGNITION AND DERECOGNITION

Initial recognition

22. An entity shall recognise a financial asset or a financial liability in balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Derecognition of a financial asset

23. Before evaluating whether, and to what extent, derecognition of a financial asset is appropriate under this Standard, an entity shall determine whether derecognition criteria should be applied to a part of a financial asset or a financial asset in its entirety, as follows:

(a) Paragraphs 24-27 are applied to a part of a financial asset if, and only if, the part being considered for derecognition meets the following conditions:

(i) The part comprises only specifically identified cash flows from a financial asset;

(ii) The part comprises only a fully proportionate share of the cash flows from a financial asset;

(iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset.

(b) In all other cases, paragraphs 24-27 are applied to the financial asset in its entirety.

24. An entity shall derecognise a financial asset when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire; or

(b) it transfers the financial asset as set out in paragraphs 25 and 26 and the transfer qualifies for derecognition in accordance with paragraph 27.

25. An entity transfers a financial asset if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of the financial asset; or

(b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in the following paragraph.

26. When an entity retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities, the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following conditions are met:

(a) The entity has no obligation to pay amounts to the eventual recipients unless it collects
equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rate do not violate this condition;

(b) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows;

(c) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

27. When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

(a) if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

(b) if the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognise the financial asset;

(c) if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:

(i) if the entity has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

(ii) if the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Transfers that qualify for derecognition

28. If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph 31.

29. If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.

30. On derecognition of a financial asset in its entirety, the difference between:

(a) the carrying amount; and

(b) the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity shall
be recognised in profit or loss.

31. If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between:

(a) the carrying amount allocated to the part derecognised; and

(b) the sum of the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) and any cumulative gain or loss allocated to it that had been recognised in equity shall be recognised in profit or loss. A cumulative gain or loss that had been recognised in equity is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts.

Transfers that do not qualify for derecognition

32. If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.

Continuing involvement in transferred assets

33. If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, but retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the entity’s continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

34. When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. Despite the other measurement requirements in this Standard, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:

(a) the amortised cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortised cost; or

(b) equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.

35. The entity shall continue to recognise any income arising on the transferred asset to the extent of its continuing involvement and shall recognise any expense incurred on the associated liability.

36. For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 54, and shall not be offset.

37. If an entity’s continuing involvement is in only a part of a financial asset, the entity allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between:
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(a) the carrying amount allocated to the part that is no longer recognised; and

(b) the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in equity, shall be recognised in profit or loss. A cumulative gain or loss that had been recognised in equity is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

All transfers

38. If a transferred asset continues to be recognised, the asset and the associated liability shall not be offset. Similarly, the entity shall not offset any income arising from the transferred asset with any expense incurred on the associated liability.

39. If a transferor provides non-cash collateral to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

(a) If the transferee has the right by contract or custom to sell or repledge the collateral, then the transferor shall reclassify that asset in its balance sheet separately from other assets;

(b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral;

(c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral;

(d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.

Derecognition of a financial liability

40. An entity shall remove a financial liability from its balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

41. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

42. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

MEASUREMENT

Initial measurement of financial assets and financial liabilities

43. When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
44. The subsequent measurement of a financial asset depends directly on the classification of the financial asset. For the purpose of this Standard the financial assets are classified into the following four categories:

(a) financial assets at fair value through profit or loss;
(b) held-to-maturity investments;
(c) loans and receivables; and
(d) available-for-sale financial assets.

45. After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

(a) loans and receivables as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method;
(b) held-to-maturity investments, which shall be measured at amortised cost using the effective interest method; and
(c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

Financial assets that are designated as hedged items are subject to measurement under the hedge accounting requirements. All financial assets except those measured at fair value through profit or loss are subject to review for impairment in accordance with the current Standard.

46. After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost;
(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 32 and 34 apply to the measurement of such financial liabilities;
(c) financial guarantee contracts, where an issuer of such a contract shall measure it at the higher of:
   (i) the amount determined in accordance with NCRF 24 – Provisions, contingent liabilities, and contingent assets; and
   (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with NCRF 28 - Revenue.
(d) commitments to provide a loan at a below-market interest rate where an issuer of such a commitment shall measure it at the higher of:
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(i) the amount determined in accordance with NCRF 24 – Provisions, contingent liabilities, and contingent assets; and

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with NCRF 28 - Revenue.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements.

Fair value considerations

47. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal business considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

Reclassifications

48. An entity shall not reclassify any financial instrument to and from the fair value through profit or loss category while it is held or issued;

49. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value. The difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 54(b).

50. An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

- (a) are so close to maturity or the financial asset’s call date that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;
- (b) occur after the entity has collected substantially all of the financial asset’s original principal through scheduled payments or prepayments; or
- (c) are attributable to an isolated event that is beyond the entity’s control, is non-recurring and could not have been reasonably anticipated by the entity.

51. Whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions in paragraph 49, any remaining held-to-maturity investments shall be reclassified as available for sale. On such reclassification, the difference between their carrying amount and fair value shall be accounted for in accordance with paragraph 54(b).

52. If a reliable measure becomes available for a financial asset or financial liability for which such a measure was previously not available, and the asset or liability is required to be measured at fair value if a reliable
measure is available, the asset or liability shall be remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 54.

53. If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the two preceding financial years referred to in paragraph 50 have passed, it becomes appropriate to carry a financial asset or financial liability at cost or amortised cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortised cost, as applicable. Any previous gain or loss on that asset that has been recognised in other comprehensive income in accordance with paragraph 54(b) shall be accounted for as follows:

(a) In the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to profit or loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortised cost and maturity amount shall also be amortised over the remaining life of the financial asset using the effective interest method, similar to the amortisation of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognised directly in equity is recognised in profit or loss in accordance with paragraph 61;

(b) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be kept in equity until the financial asset is sold or otherwise disposed of when it is recognised in profit or loss. If the financial asset is subsequently impaired any previous gain or loss that has been recognised directly in equity is recognised in profit or loss in accordance with paragraph 61.

Gains and losses

54. A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship shall be recognised, as follows:

(a) a gain or loss on a financial asset or financial liability classified as at fair value through profit or loss shall be recognised in profit or loss;

(b) a gain or loss on an available-for-sale financial asset shall be recognised in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. At that time the cumulative gain or loss previously recognised in equity shall be reclassified from equity to profit or loss as a reclassification adjustment. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity’s right to receive payment is established.

55. For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process. However, for financial assets or financial liabilities that are hedged items the accounting for the gain or loss shall follow paragraphs 73–77.

Impairment and uncollectibility of financial assets

56. An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply the provisions of the current Standard to determine the amount of any impairment loss.
57. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
   (i) adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments); or
   (ii) national or local economic conditions that correlate with defaults on the assets in the group (eg adverse changes in industry conditions that affect the borrowers in the group).

Financial assets carried at amortised cost

58. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

59. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.

Financial assets carried at cost

60. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the
impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Available-for-sale financial assets

61. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in equity shall be reclassified from equity to profit or loss even though the financial asset has not been derecognised.

62. The amount of the cumulative loss that is reclassified from equity to profit or loss under previous paragraph shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

63. Impairment losses not recognised in profit or loss for an investment in an equity instrument classified as available for sale shall be reversed through profit or loss.

64. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

HEDGING

65. If there is a designated hedging relationship between a hedging instrument and a hedged item as described in paragraphs 71 and 72 of the current Standard, accounting for the gain or loss on the hedging instrument and the hedged item shall follow paragraphs 73-77.

Hedging instruments

66. For hedge accounting purposes, only instruments that involve a party external to the reporting entity (ie external to the group or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within a consolidated group or divisions within an entity may enter into hedging transactions with other entities within the group or divisions within the entity, any such intragroup transactions are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the group. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the group provided that they are external to the individual entity that is being reported on.

67. Hedging instruments may be designated in several ways:

(a) A proportion of the hedging instrument (such as 50 per cent of the notional amount) may be designated as the hedging instrument in a hedging relationship;

(b) A single hedging instrument may be designated as a hedge of more than one type of risk provided that:

   (i) the risks hedged can be identified clearly;

   (ii) the effectiveness of the hedge can be demonstrated; and

   (iii) it is possible to ensure that there is specific designation of the hedging instrument and different risk positions.

(c) Two or more derivatives, or proportions of them, may be viewed in combination and jointly
Hedged items

68. A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a highly probable forecast transaction or a net investment in a foreign operation. The hedged item can be:

(a) a single asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation; or

(b) a group of assets, liabilities, firm commitments, highly probable forecast transactions, or net investments in foreign operations with similar risk characteristics; or

(c) in a portfolio hedge of interest rate risk only, a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged.

69. If the hedged item is a financial asset or financial liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value provided that effectiveness can be measured.

70. If the hedged item is a non-financial asset or non-financial liability, it shall be designated as a hedged item (a) for foreign currency risks, or (b) in its entirety for all risks, because of the difficulty of isolating and measuring the appropriate portion of the cash flows or fair value changes attributable to specific risks other than foreign currency risks.

Hedge accounting

71. Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item which may be of three types:

(a) fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss;

(b) cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss; and

(c) hedge of a net investment in a foreign operation as defined in NCRF 23 – The effects of changes in foreign exchange rates.

72. A hedging relationship qualifies for hedge accounting under if, and only if, all of the following conditions are met.

(a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk;

(b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;

The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured; and

The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

**Fair value hedges**

73. If a fair value hedge meets the conditions in previous paragraph during the period, it shall be accounted for as follows:

(a) the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with NCRF 23 – The effects of changes in foreign exchange rates (for a non-derivative hedging instrument) shall be recognised in profit or loss; and

(b) the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

74. An entity shall discontinue prospectively the hedge accounting specified in the previous paragraph if:

(a) the hedging instrument expires (or is sold or terminated);

(b) the hedge no longer meets the criteria for hedge accounting in paragraph 72; or

(c) the entity revokes the designation.

**Cash flow hedges**

75. If a cash flow hedge meets the conditions in paragraph 72 during the period, it shall be accounted for as follows:

(a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in equity; and

(b) the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

76. In any of the following circumstances an entity shall discontinue prospectively the hedge accounting specified in the previous paragraphs:

(a) The hedging instrument expires (or is sold or terminated). In this case, the cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs;

(b) The hedge no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective shall remain separately in equity until the forecast
Hedges of a net investment

77. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see NCRF 23 – The effects of changes in foreign exchange rates), shall be accounted for similarly to cash flow hedges:

(a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in equity; and

(b) the ineffective portion shall be recognised in profit or loss.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in equity shall be reclassified from equity to profit or loss on the disposal or period disposal of the foreign operation.

DISCLOSURE

Significance of financial instruments for balance sheet and income statement

Balance sheet

78. An entity shall disclose the carrying amounts of each of the following categories either in the balance sheet or in the notes:

(a) financial assets at fair value through profit or loss, showing separately:
   (i) those designated as such upon initial recognition; and
   (ii) those classified as held for trading in accordance with the current Standard;

(b) held-to-maturity investments;

(c) loans and receivables;

(d) available-for-sale financial assets;

(e) financial liabilities at fair value through profit or loss, showing separately:
   (i) those designated as such upon initial recognition; and
   (ii) those classified as held for trading in accordance with the current Standard.

(f) financial liabilities measured at amortised cost.

79. If the entity has designated a loan or receivable as at fair value through profit or loss, it shall disclose:
(a) the maximum exposure to credit risk of the loan or receivable at the end of the reporting period;
(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;
(c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable that is attributable to changes in the credit risk of the financial asset determined either:
   (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
   (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.
(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

80. If the entity has designated a financial liability as at fair value through profit or loss, it shall disclose:
   (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:
      (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
      (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.
   (b) the difference between the financial liability’s carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

81. If the entity has reclassified a financial asset as one measured:
   (a) at cost or amortised cost, rather than at fair value; or
   (b) at fair value, rather than at cost or amortised cost,

it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.

82. If an entity transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition in accordance with the current Standard it shall disclose for each class of such financial assets:
   (a) the nature of the assets;
   (b) the nature of the risks and rewards of ownership to which the entity remains exposed;
   (c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and
   (d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.
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83. For collateral an entity shall disclose:

(a) regarding the collateral rendered:
   (i) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities; and
   (ii) the terms and conditions relating to its pledge.

(b) regarding collateral held which is permitted to sell or repledge in the absence of default by the owner of the collateral:
   (i) the fair value of the collateral held;
   (ii) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
   (iii) the terms and conditions associated with its use of the collateral.

84. An entity shall disclose the movement of impairment losses for financial assets arising during the period for each class of financial assets.

85. For loans payable recognised at the end of the reporting period, an entity shall disclose:

(a) details of any defaults during the period of principal or interests;

(b) the carrying amount of the loans payable in default at the end of the reporting period; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

Income statement

86. An entity shall disclose the following items of income, expense, gains or losses either in the income statement of or in the notes:

(a) net gains or net losses on:
   (i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading;
   (ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised in equity during the period and the amount reclassified from equity to profit or loss for the period;
   (iii) held-to-maturity investments;
   (iv) loans and receivables; and
   (v) financial liabilities measured at amortised cost;

(b) total interest income and total interest expense for financial assets or financial liabilities that are not at fair value through profit or loss;

(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from financial assets or financial liabilities that are not at fair value through profit or loss;
(d) interest income on impaired financial assets; and
(e) the amount of any impairment loss for each class of financial asset.

**Other disclosures**

87. An entity shall disclose the following separately for each type of hedge described in the current Standard:
   (a) a description of each type of hedge;
   (b) a description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and
   (c) the nature of the risks being hedged.

88. For cash flow hedges, an entity shall disclose:
   (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;
   (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
   (c) the amount that was recognised in equity during the period;
   (d) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the income statement; and
   (e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

89. An entity shall disclose separately:
   (a) in fair value hedges, gains or losses:
      (i) on the hedging instrument; and
      (ii) on the hedged item attributable to the hedged risk.
   (b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and
   (c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

90. An entity shall disclose for each class of financial assets and financial liabilities the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount. Disclosures of fair value are not required:
   (a) when the carrying amount is a reasonable approximation of fair value (for example, for financial instruments such as short-term trade receivables and payables); or
   (b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that are measured at cost in accordance with the current Standard because its fair value cannot be measured reliably.

91. An entity shall also disclose:
   (a) the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities;
whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique;
(c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions and not based on available observable market data.
(d) if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.

Nature and extent of risks arising from financial instruments

92. The objective of the following required disclosures is to enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

93. For each type of risk arising from financial instruments, an entity shall disclose qualitative and quantitative information.

Qualitative disclosures

(a) the exposures to risk and how they arise;
(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
(c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity;
(b) the disclosures required by the following paragraphs 94-99;
(c) concentrations of risk if not apparent from previous lines (a) and (b).

Credit risk

94. An entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements;
(b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
(c) information about the credit quality of financial assets that are neither past due nor impaired; and
(d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

95. in respect of Financial assets that are neither past due or impaired an entity shall disclose:

(a) an analysis of the age of financial assets that are past due as at the end of the reporting
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period but not impaired;

(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and

(c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

96. When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements, and such assets meet the recognition criteria in other Standards, an entity shall disclose:

(a) the nature and carrying amount of the assets obtained; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

97. An entity shall disclose:

(a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and

(b) a description of how it manages the liquidity risk inherent in (a).

Market risk

98. Unless an entity complies with the next paragraph, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

99. If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in the previous paragraph. The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.
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OBJECTIVE

1. This Standard shall be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

SCOPE

2. Government grants related to assets (or government grants related to investment) are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

3. Government grants related to income (or government grants to the operational activity) are government grants other than those related to assets or investment.

4. Government assistance takes many forms varying both in the nature of the assistance given and in the conditions which are usually attached to it. The purpose of the assistance may be to encourage an entity to embark on a course of action which it would not normally have taken if the assistance was not provided.

5. This Standard does not deal with:
   (a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices;
   (b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. (for example, income tax holidays, investment tax credits, accelerated depreciation allowances);
   (c) Government participation in the ownership of the entity; and
   (d) Government grants covered by NCRF 11 – Agriculture and biological assets.

GOVERNMENT GRANTS

6. Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:
   (a) the entity will comply with the conditions attaching to them; and
   (b) the grants will be received.

Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

7. A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

8. Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. These grants should not be credited directly to equity.

9. Recognition of government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see NCRF 1 - Presentation of financial statements) and would be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.

10. In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable. Thus grants in recognition of specific expenses are recognised in profit or
loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

11. Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations.

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

13. A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

Non-monetary government grants

14. A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.

Presentation of grants related to assets

15. Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

16. If the grant is recorded as deferred income, is recognised in profit or loss on a systematic and rational basis over the useful life of the asset. If the grant is recorded by deducting the carrying amount of the asset, is recognised as income over the life of a depreciable asset as a reduced depreciation expense.

Presentation of grants related to income

17. Grants related to income are sometimes presented as a credit in the income statement, or as deductions in reporting the related expense.

18. Both methods are regarded as acceptable but disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Repayment of government grants

19. A government grant that becomes repayable shall be accounted for as a change in accounting estimate (see NCRF 4 - Accounting policies, changes in accounting estimates and errors).

20. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. When no deferred credit exists or to the extent that the repayment exceeds any such deferred credit, the repayment shall be recognised immediately as an expense.

21. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately as an expense.
GOVERNMENT ASSISTANCE

22. Excluded from the definition of government grants are certain forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

23. Examples of assistance that cannot reasonably have a value placed upon them are free technical advice and the provision of guarantees. An example of assistance that cannot be distinguished from the normal trading transactions of the entity is a government procurement policy that is responsible for a portion of the entity’s sales. The existence of the benefit might be unquestioned but any attempt to segregate the trading activities from government assistance could well be arbitrary. The significance of the benefit in the above examples may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading.

24. Loans at zero interest or low rates are a form of government assistance, but the benefit is not quantified by the imputation of interest.

25. In this Standard, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

DISCLOSURE

26. The following matters shall be disclosed:

(a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;

(b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

(c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.
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OBJECTIVE
1. The objective of this Standard is to establish the principles for the recognition of costs associated with borrowing by one entity.

SCOPE
2. Borrowing costs may include:
   (a) interest on bank overdrafts and short-term and long-term borrowings;
   (b) amortisation of discounts or premiums relating to borrowings;
   (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
   (d) finance charges in respect of finance leases recognised in accordance with NCRF 17 Leases; and
   (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

3. Depending on the circumstances, any of the following may be qualifying assets:
   (a) inventories;
   (b) manufacturing plants;
   (c) power generation facilities;
   (d) intangible assets; and
   (e) investment properties.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Similarly, assets that, when acquired are ready for their intended use or sale when acquired are not qualifying assets.

4. An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:
   (a) a qualifying asset measured at fair value, for example a biological asset;
   (b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

5. The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

RECOGNITION
Core Principle
6. The core principle of this Standard is the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

7. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.
8. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

9. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

10. To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

11. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Excess of the carrying amount of the qualifying asset over recoverable amount

12. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

Commencement of capitalisation

13. An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity:

(a) it incurs expenditures for the asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

14. Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see NCRF 26 - Accounting for government grants and disclosure of government assistance).

15. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of
the physical construction. However, such activities exclude the holding of an asset when no production or
development that changes the asset’s condition is taking place. For example, borrowing costs incurred while
land is under development are capitalised during the period in which activities related to the development are
being undertaken. However, borrowing costs incurred while land acquired for building purposes is held
without any associated development activity do not qualify for capitalisation.

Suspension of capitalisation

16. An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active
development of a qualifying asset.

17. An entity may incur borrowing costs during an extended period in which it suspends the activities necessary
to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets
and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing
costs during a period when it carries out substantial technical and administrative work. An entity also does
not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of
getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended
period that high water levels delay construction of a bridge.

Cessation of capitalisation

18. An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare
the qualifying asset for its intended use or sale are complete.

19. An asset is normally ready for its intended use or sale when the physical construction of the asset is
complete even though routine administrative work might still continue. If minor modifications, such as the
decoration of a property to the purchaser’s or user’s specification, are all that are outstanding, this indicates
that substantially all the activities are complete.

20. When an entity completes the construction of a qualifying asset in parts and each part is capable of being
used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it
completes substantially all the activities necessary to prepare that part for its intended use or sale.

DISCLOSURE

21. An entity shall disclose:

(a) the amount of borrowing costs capitalised during the period; and

(b) the capitalisation rate used to determine the amount of borrowing costs eligible for
capitalisation.
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Objective

1. Income is defined in the Conceptual Framework of PGC - NIRF as 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). Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

2. The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Scope

3. Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

4. This Standard shall be applied in accounting for revenue arising from the following transactions and events:
   (a) the sale of goods;
   (b) the rendering of services; and
   (c) the use by others of entity assets yielding interest, royalties and dividends.

5. Goods include goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

6. The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts. Revenue arising from these contracts is not dealt with in this Standard but is dealt with in accordance with NCRF 10 - Construction contracts.

7. This Standard does not deal with revenue arising from:
   (a) lease agreements (see NCRF 17 - Leases);
   (b) dividends arising from investments which are accounted for under the equity method (see NCRF 20 – Investments in subsidiaries, associates, and interests in joint ventures);
   (c) changes in the fair value of financial assets and financial liabilities or their disposal (see NCRF 25 - Financial instruments);
   (d) changes in the value of other current assets;
   (e) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see NCRF 11 - Agriculture and biological assets); and
MEASUREMENT OF REVENUE

8. Revenue shall be measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

9. In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable.

IDENTIFICATION OF THE TRANSACTION

10. The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

SALE OF GOODS

11. Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

12. The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

13. If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

(a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;

(b) when the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the buyer from its sale of the goods;

(c) when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
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(d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

RENDERING OF SERVICES

14. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;
(b) it is probable that the economic benefits associated with the transaction will flow to the entity;
(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The stage of completion of a transaction is determined by the methods prescribed in the paragraph 21 of NCRF 10 – Construction contracts.

15. An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

(a) each party’s enforceable rights regarding the service to be provided and received by the parties;
(b) the consideration to be exchanged; and
(c) the manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

16. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with paragraph 14.

INTEREST, ROYALTIES AND DIVIDENDS

17. Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised on the bases set out in the following paragraph, when:

(a) it is probable that the economic benefits associated with the transaction will flow to the entity; and
(b) the amount of the revenue can be measured reliably.

18. Revenue shall be recognised on the following bases:
(a) interest shall be recognised using the effective interest method as set out in NCRF 25 – Financial instruments;

(b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and

(c) dividends shall be recognised when the shareholder’s right to receive payment is established.

UNCERTAINTIES ABOUT THE COLLECTIBILITY

19. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this can only be achieved until the consideration is received or no longer exist uncertainties. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

DISCLOSURE

20. An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) the amount of each significant category of revenue recognised during the period, including revenue arising from:

   (i) the sale of goods;

   (ii) the rendering of services;

   (iii) interest;

   (iv) royalties;

   (v) dividends; and

(c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.
CHAPTER 6- CHART OF ACCOUNTS
## Title I - Chart of Accounts Based on IFRS (PGC-NIRF)

### Chapter 1.5 - Chart of Accounts

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CHAPTER 6 – ILLUSTRATIVE FINANCIAL STATEMENTS STRUCTURE

Balance Sheet
Income Statement
Cash Flow Statement
Statement of Changes in Equity
Notes to the Financial Statements

Note:
When consolidated financial statements are presented, the headings of the forms presented should be designated as follows:
Consolidated Balance Sheet
Consolidated Income Statement
Consolidated Cash Flow Statement
Consolidated Statement of Changes in Equity
Consolidated Notes to the Financial Statements
## BALANCE SHEET

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<tr>
<td>Trade payables</td>
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<tr>
<td>Borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Tax payables</td>
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<td>Other payables</td>
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<td><strong>Total liabilities</strong></td>
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<tr>
<td><strong>Total equity and liabilities</strong></td>
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### Income Statement

<table>
<thead>
<tr>
<th>By nature</th>
<th>Notes</th>
<th>Period n</th>
<th>Period n-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales of goods and services</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Changes in production and work in progress</td>
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<tr>
<td>Work performed by the entity and capitalised</td>
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</tr>
<tr>
<td>Cost of inventories sold or consumed</td>
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<td></td>
</tr>
<tr>
<td>Staff expenses</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Purchased supplies and services</td>
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<tr>
<td>Depreciation and amortisation for the period</td>
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<tr>
<td>Provisions</td>
<td></td>
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</tr>
<tr>
<td>Adjustments from inventories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment from receivables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment from tangible and intangible assets</td>
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</tr>
<tr>
<td>Other operating gains and losses for the period</td>
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</tr>
<tr>
<td><strong>Financial income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains/losses from associates</td>
<td></td>
<td></td>
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<tr>
<td><strong>Profit or loss before tax</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Income tax</td>
<td></td>
<td></td>
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<tr>
<td><strong>Profit or loss for the period from continuing operations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit or loss from discontinued operations</td>
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</tr>
<tr>
<td><strong>Net profit or loss for the period</strong></td>
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<td></td>
</tr>
<tr>
<td>Profit or loss for the period attributable to:</td>
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<tr>
<td>Equity holders of the parent</td>
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</tr>
<tr>
<td>Minority interests</td>
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<tr>
<td><strong>Earnings per share</strong></td>
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</table>
### Chapter 1.6 – Illustrative Financial Statement Structure

#### Income Statement

<table>
<thead>
<tr>
<th>By function</th>
<th>Notes</th>
<th>Period n</th>
<th>Period n-1</th>
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</thead>
<tbody>
<tr>
<td><strong>Sales of goods and services</strong></td>
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<td>Cost of sales of goods and services</td>
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<td><strong>Gross profit</strong></td>
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<td>Other income</td>
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<td>Distribution costs</td>
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<td>Administrative expenses</td>
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<tr>
<td>Finance income/costs</td>
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<td></td>
</tr>
<tr>
<td>Other operating gains/losses</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Gains/losses from associates</td>
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<td></td>
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<tr>
<td><strong>Profit or loss before tax</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Income tax</td>
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<tr>
<td><strong>Profit or loss for the period from continuing operations</strong></td>
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<tr>
<td>Net profit or loss from discontinued operations</td>
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<tr>
<td><strong>Profit or loss for the period</strong></td>
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<tr>
<td>Profit or loss for the period attributable to:</td>
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<tr>
<td>Equity holders of the parent</td>
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</tr>
<tr>
<td>Minority interests</td>
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</tr>
<tr>
<td><strong>Earnings per share</strong></td>
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</table>
## Chapter 1.6 – Illustrative Financial Statement Structure

### Cash Flow Statement

**Direct Method**

<table>
<thead>
<tr>
<th>Description</th>
<th>Notes</th>
<th>Period n</th>
<th>Period n-1</th>
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<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash receipts from trade receivables</td>
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<tr>
<td>Cash paid to trade payables</td>
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<tr>
<td>Cash paid to employees</td>
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<tr>
<td><em>Cash generated from operations</em></td>
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<tr>
<td>Income taxes paid/received</td>
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<tr>
<td>Other operating payments/receipts</td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments related to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of tangible assets</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of intangible assets</td>
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<tr>
<td>Acquisition of other investments</td>
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<td></td>
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<tr>
<td>Receipts related to:</td>
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<td></td>
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</tr>
<tr>
<td>Proceeds from sale of tangible assets</td>
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<td></td>
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<tr>
<td>Proceeds from sale of intangible assets</td>
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</tr>
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<td>Proceeds from sale of other investments</td>
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<tr>
<td>Grants to investment</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Interests and similar income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
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<tr>
<td>Other receipts</td>
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<td></td>
</tr>
<tr>
<td><em>Net cash used in investing activities</em></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Receipts related to:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowing</td>
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<tr>
<td>Proceeds from increase of share capital and other contributions from equity holders</td>
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<tr>
<td>Losses coverage from equity holders</td>
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<td></td>
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<tr>
<td>Grants</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Other financing</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Payments related to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and other financing obtained</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interests and similar income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursement of share capital or other contributions from equity holders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financing activities</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><em>Net cash used in financing activities</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net increase/decrease in cash and cash equivalents</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cash and cash equivalents at beginning of period</td>
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<tr>
<td>Cash and cash equivalents at end of period</td>
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</tr>
</tbody>
</table>
### Cash Flow Statement

#### Indirect Method

**Cash flows from operating activities**  
Net profit or loss for the period  
Adjustments for:  
- Depreciation and amortisation  
- Impairments  
- Fair value  
- Provisions  
- Adjustments  
- Interests and similar (net)  
- Gains and losses on sales of tangible and intangible assets  
- Increase/decrease of biological assets  
- Increase/decrease of inventories  
- Increase/decrease of trade and other receivables  
- Increase/decrease of other current assets  
- Increase/decrease of trade payables  
- Increase/decrease of other creditors and payables  
- Increase/decrease of other current liabilities  

**Net cash from operating activities**

**Cash flows from investing activities**  
Payments related to:  
- Purchase of tangible and intangible assets  
- Acquisition of other investments  
- Proceeds from sale of tangible and intangible assets  
- Proceeds from sale of other investments  
- Grants to investment  
- Interests and similar income  
- Dividends  
- Other receipts  

**Net cash used in investing activities**

**Cash flows from financing activities**  
Receipts related to:  
- Proceeds from borrowing  
- Proceeds from increase of share capital and other contributions from equity holders  
- Losses coverage from equity holders  
- Grants  
- Other financing  
Payments related to:  
- Loans and other financing obtained  
- Interests and similar income  
- Dividends  
- Reimbursement of share capital or other contributions to equity holders  
- Other financing activities  

**Net cash used in financing activities**

**Net increase/decrease in cash and cash equivalents**

**Cash and cash equivalents at beginning of period**

**Cash and cash equivalents at end of period**
## Statement of changes in equity

<table>
<thead>
<tr>
<th>Nature of changes</th>
<th>Equity attributable to equity holders of the parent</th>
<th>Minority Interests</th>
<th>Total equity</th>
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<tbody>
<tr>
<td></td>
<td>Share Capital</td>
<td>Legal Reserve</td>
<td>Surplus of revaluation</td>
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<td>Balance at the beginning of the period N</td>
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<tr>
<td>Changes in the period:</td>
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<tr>
<td>Changes in the accounting policies</td>
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<tr>
<td>Adjustments</td>
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<tr>
<td>Exchange differences on translating foreign operations</td>
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<tr>
<td>Deferred tax</td>
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<td>Changes in reserves:</td>
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<tr>
<td>Creation/increase</td>
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<tr>
<td>Use/reversal</td>
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<tr>
<td>Transfer</td>
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<tr>
<td>Other changes</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Effects of first adoption of PGC-NIRF</td>
<td></td>
<td></td>
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<tr>
<td>Net profit for the period</td>
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<tr>
<td>Total recognised income and expenses for the period</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Transactions with equity holders:</td>
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</tr>
<tr>
<td>Increases of Share Capital</td>
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</tr>
<tr>
<td>Other capital contributions</td>
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<tr>
<td>Dividends</td>
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<td></td>
<td></td>
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<tr>
<td>Other transactions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of the period N</td>
<td></td>
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</tr>
</tbody>
</table>

This statement should also be prepared for the period N-1.
Notes to the Financial Statements

This document presents a set of examples of disclosures required by the Financial Accounting and Reporting Standards incorporating the PGC - NIRF and should not be seen neither as an exhaustive list or a definite form on the notes provided by an entity nor damaging the consultation and compliance with the disclosures required by each accounting standard.

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 financial statements required under PGC - NIRF. The notes presented should provide a cross-reference to the items of the balance sheet, income statement and statement of cash flows to which they relate.

NOTES TO THE FINANCIAL STATEMENTS

Identification

(i) Name of entity:

(ii) Headquarters:

(iii) Activity nature:

(iv) Name of parent:

(v) Headquarters of the parent:

(vi) Date and body that authorized the financial statements:

1. Basis of preparation

1.1. Identification of the bases of preparation of financial statements and the currency and unit of presentation. It should also be made a declaration of compliance with the PGC - NIRF.

1.2. Disclosure and justification for departures from the PGC - NIRF and their effects on the financial statements, in view of the need for these give a true and fair view of the financial position and performance of an entity.

1.3. Disclosure and comments on the accounts of the balance sheet and income statement which contents are not comparable with those of previous years.

2. Main accounting policies

Disclosure of the significant accounting policies adopted in the preparation of the financial statements in accordance to the Financial Accounting and Reporting Standards.

3. Significant judgements, accounting estimates and assumptions

3.1 Disclosure of the significant judgements that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.2 Disclosure of the estimates and key assumptions it makes 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.

4. Changes in accounting policies, estimates and errors

4.1 Disclosure of voluntary changes in accounting policies with an effect on the current period or any
Notes to the Financial Statements

prior period, or might have an effect on future periods, namely:

a) the nature of the change in accounting policy;

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

c) the amount of the adjustment relating to the current period as well as to the periods before those presented.

4.2 Disclosure of changes in accounting estimates with an effect on the current period, or might have an effect on future periods, namely:

a) the nature of the change in accounting estimate; and

b) situations where it is impracticable to estimate that effect.

4.3 Disclosure of prior period errors corrected, namely:

a) nature of the error;

b) the amount of the correction for each prior period presented; and

c) if applicable, reasons that led to the impracticability of retrospective restatement.

5. Effect of the first time adoption of PGC - NIRF

In the year of transition to PGC - NIRF:

a) Disclosure of the period in which the PGC - NIRF was first adopted, the date of transition, as well as the previous accounting reference;

b) Explanation of how the transition to PGC - NIRF affected its reported financial position, financial performance and cash flows;

c) A list of exceptions to retrospective application of Accounting Standards provided in Chapter 1.3 – Rules for the first time adoption of PGC-NIRF;

d) Reconciliation of equity (reported in accordance with previous accounting standards (PGC) to equity in accordance with PGC – NIRF) between the date of transition to PGC-NIRF and the end of the latest period presented in the entity’s most recent annual financial statements in accordance with previous accounting standards; and

e) Reconciliation of the profit or loss in accordance with accounting standards for the latest period in the entity’s most recent annual financial statements with the profit or loss in accordance with PGC - NIRF for the same period.

This note is not presented in the years following the first time adoption of the PGC-NIRF.

6. Business combinations

6.1 For each significant business combination effected during the current reporting period, disclosure of the characteristics of combination that enables users of financial statements to evaluate its nature and financial effect.

6.2 In situations where the accounting for a business combination is not completed, and the amounts recognised in financial statements have been determined provisionally, disclosure of the reasons, the nature and amount of adjustments recognised and items for which the accounting is not finalised shall be required.
TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.6 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE

Notes to the Financial Statements

6.3 Disclosure of the amount and explanation of any gain or loss recognised during the period in accordance with the applicable standard.

6.4 Reconciliation of the carrying amount of goodwill recorded at the beginning and end of the period.

7. Interests in jointly controlled entities

7.1 Disclosure of the aggregate amount of contingent liabilities and commitments associated with joint ventures separately from other contingent liabilities and other commitments.

7.2 Disclosure and description of interests in significant joint ventures and the percentage of interest in jointly controlled entities.

8. Investments in associates

8.1 Disclosure of the fair values of investments in associates for which there are published price quotations.

8.2 Summary of financial information of associates.

8.3 Disclosure of the reasons why it was overturned by the presumption of significant influence.

8.4 Disclosure of the reference date of the financial statements of an associate when it differs from the reference date of the investor.

8.5 Disclosure of the nature of any significant restrictions on the transfer of funds of the associate.

8.6 Disclosure of associates that were not accounted for under the equity method.

8.7 Disclosure of the amount of losses of an associate not recognised in the financial statements.

9. Segments reporting

9.1 Disclosure of criteria used to identify the entity’s reportable segments and related types of products and services from which each reportable segment derives its revenues.

9.2 Disclosure of the amounts of profit or loss and total assets of the operating segments.

9.3 Reconciliation of total revenues, profit or loss, assets and liabilities to the corresponding items reported in financial statements.

10. Tangible assets

10.1 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).

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

10.3 Explanation of the revaluations made (when applicable).

10.4 Disclosure of situations of impairment recognised or reversed during the period in accordance with the applicable standard.

10.5 Disclosure of the amount of borrowing costs capitalized during the period.

11. Investment property

11.1 Disclosure of changes in the carrying amount during the period, reconciling the carrying amounts
TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.6 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE

Notes to the Financial Statements

at the beginning and end of the period.

11.2 Disclosure of the amounts of rental income, operating expenses (direct and indirect) arising from investment properties that have generated or not rental income.

11.3 Disclosure of the amounts of restrictions on the realisability of investment property or remittance of income and proceeds of disposal.

11.4 Disclosure of situations of impairment recognised or reversed during the period in accordance with the applicable standard.

11.5 Disclosure of the amount of borrowing costs capitalized during the period.

12. Intangible assets

12.1 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).

12.2 Disclosure and description of intangible assets with indefinite useful life.

12.3 Explanation of the revaluations made (when applicable).

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

12.5 Disclosure of the aggregate amount of research and development expenditure recognised as an expense during the period.

12.6 Disclosure of situations of impairment recognised or reversed during the period in accordance with the applicable standard.

12.7 Disclosure of the amount of borrowing costs capitalized during the period.

13. Biological assets

13.1 Disclosure of changes in the carrying amount of biological assets between the beginning and the end of the reportable period.

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

13.3 Disclosure of financial risk management strategies related to agricultural activity.

13.4 Disclosure of the nature and amount of government grants recognised in the financial statements as well as unfulfilled conditions or significant decreases expected in the level of government grants.

14. Other financial assets and liabilities

14.1 Indication of the nature and category of other assets and liabilities, defined as financial instruments in accordance with the applicable standard.

14.2 Disclosure of the impairment movements occurred during the period.

15. Non current assets held for sale

Disclosure of the information that enables to evaluate the financial effects of discontinued operations and disposals of non-current assets, in accordance with the applicable Standard.
TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.6 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE

Notes to the Financial Statements

16. Inventories
   16.1 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.
   16.2 Disclosure of the carrying amount of inventories pledged as security for liabilities.

17. Trade and other receivables
   17.1 Disclosure of the impairment movements occurred during the period.

18. Cash and bank
   18.1 Disclosure of the components of cash and cash equivalents as well as the reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.
   18.2 Disclosure of the amount of significant cash and cash equivalent balances held that are not available for use.

19. Share Capital
   19.1 Disclosure of the amounts of realised and non realised capital.
   19.2 Reconciliation of number of shares at the beginning and end of the period.
   19.3 Disclosure of the nature and purpose of each reserve.

   20.1 Reconciliation between the carrying amount at the beginning and end of the period.
   20.2 Description of the nature of the obligation and the expected date of any resulting outflows of resources and uncertainties about the amount or timing of those.

21. Income tax
   21.1 Disclosure of the major components of tax expense (income).
   21.2 Reconciliation between tax expense (or income) and the accounting profit.
   21.3 Disclosure of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet.

22. Earnings per share
   22.1 Disclosure of the amounts used as the numerator in calculating earnings per share.
   22.2 Disclosure of the weighted average number of ordinary shares used as the denominator in calculating earnings per share.

23. Government grants
   Disclosure of the nature and extent of government grants recognised in the financial statements.

24. Benefits post employment
   24.1 Disclosure of the type of plan for post-employment benefits.
   24.2 Disclosure of information that enables users of financial statements to evaluate the nature of the plans and the financial effects of changes in those plans during the reportable period, in accordance with the related Standard.
TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.6 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE

Notes to the Financial Statements

25. Related parties
   25.1 Disclosure of the nature of the related party relationship.
   25.2 Disclosure of the transactions and outstanding balances, by categories, including adjustments for doubtful debts related to the amount of those outstanding balances.
   25.3 Disclosure of the total benefits of key management personnel.

26. Commitments and contingencies
   Disclosure of existing commitments and contingencies, such as those arising from leases, equity investments, lawsuits and guarantees. It should also be disclosed the nature of any existing contingent assets.

27. Risk management, purposes and policies
   27.1 Disclosure of the significance of financial instruments for the financial position and performance.
   27.2 Disclosure of the nature and extent of risks arising from financial instruments as well as how those risks are managed.
   27.3 Disclosure of the collateral held and rendered, in accordance with NCRF 25 - Financial instruments.
   27.4 Disclosure of the default situations related to loans payable, in accordance with NCRF 25 - Financial instruments.
   27.5 Disclosure of the types of hedge, describing the hedging instruments, the hedged item and the nature of the risks being hedged, in accordance with NCRF 25 - Financial instruments.

28. Disclosures required by legislation
   Disclosure of the information required by other legislation in force with impact on the activity of the entity.

29. Other information
   Disclosure of relevant information for better understanding of the financial position and performance.

30. Events after balance sheet date
   30.1 Disclosure of information received after the balance sheet date about conditions that existed at the balance sheet date.
   30.2 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.
CHAPTER 1.7 - GLOSSARY OF TERMS AND EXPRESSIONS
## Glossary of Terms and Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting period</td>
<td>Time frame covered by the financial statements.</td>
</tr>
<tr>
<td>Accounting policies</td>
<td>Principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.</td>
</tr>
<tr>
<td>Acquiree (or acquiree entity)</td>
<td>The business or businesses that the acquirer obtains control of in a business combination.</td>
</tr>
<tr>
<td>Acquirer (or acquirer entity)</td>
<td>The entity that obtains control of the acquiree.</td>
</tr>
<tr>
<td>Acquisition date of an acquiree by an acquirer</td>
<td>The date on which the acquirer obtains control of the acquiree.</td>
</tr>
<tr>
<td>Active market</td>
<td>A market where all the following conditions exist:</td>
</tr>
<tr>
<td></td>
<td>(a) the items traded within the market are homogeneous; (b) willing buyers and sellers can normally be found at any time; and (c) prices are available to the public.</td>
</tr>
<tr>
<td>Actuarial assumptions</td>
<td>An entity’s unbiased and mutually compatible best estimates of the demographic and financial variables that will determine the ultimate cost of providing post-employment benefits.</td>
</tr>
<tr>
<td>Actuarial gains and losses</td>
<td>Comprise:</td>
</tr>
<tr>
<td></td>
<td>(a) the effects of differences between the previous actuarial assumptions and what has actually occurred (experience adjustments); and (b) the effects of changes in actuarial assumptions.</td>
</tr>
<tr>
<td>Agricultural activity</td>
<td>The management by an entity of the biological transformation of biological assets into agricultural produce or into additional biological assets for sale.</td>
</tr>
<tr>
<td>Agricultural produce</td>
<td>The harvested product of (or originated by) the entity’s biological assets.</td>
</tr>
<tr>
<td>Amortisation (and depreciation)</td>
<td>The systematic allocation of the depreciable amount of an asset intangible (and tangible) over its useful life.</td>
</tr>
<tr>
<td>Amortised cost of a financial asset or financial liability</td>
<td>The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (through the use of an allowance account) for impairment or uncollectibility.</td>
</tr>
<tr>
<td>Arm’s length transaction</td>
<td>Transaction between independent unrelated parties.</td>
</tr>
<tr>
<td>Asset</td>
<td>A resource:</td>
</tr>
<tr>
<td></td>
<td>(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.</td>
</tr>
</tbody>
</table>
### TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

### CHAPTER 1.7 – GLOSSARY OF TERMS AND EXPRESSIONS

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets held by a long-term employee benefit fund</td>
<td>Assets (other than non-transferable financial instruments issued by the reporting entity) that:</td>
</tr>
<tr>
<td></td>
<td>(a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and</td>
</tr>
<tr>
<td></td>
<td>(b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity’s own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:</td>
</tr>
<tr>
<td></td>
<td>(i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or</td>
</tr>
<tr>
<td></td>
<td>(ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.</td>
</tr>
<tr>
<td>Associate</td>
<td>An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that, is neither a subsidiary nor an interest in a joint venture.</td>
</tr>
<tr>
<td>Available-for-sale financial assets</td>
<td>Non-derivative financial assets that are designated as available for sale or are not classified as:</td>
</tr>
<tr>
<td></td>
<td>(a) loans and receivables;</td>
</tr>
<tr>
<td></td>
<td>(b) held-to-maturity investments; or</td>
</tr>
<tr>
<td></td>
<td>(c) financial assets at fair value through profit or loss.</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>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).</td>
</tr>
<tr>
<td>Biological asset</td>
<td>A living animal or plant.</td>
</tr>
<tr>
<td>Biological transformation</td>
<td>The processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>Interest and other costs incurred by an entity in connection with the borrowing of funds.</td>
</tr>
<tr>
<td>Business</td>
<td>An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.</td>
</tr>
<tr>
<td>Business combination</td>
<td>A transaction or other event in which an entity (the acquirer) obtains control of one or more businesses of other entity (the acquiree).</td>
</tr>
<tr>
<td>Capital owners (or owners)</td>
<td>See owners.</td>
</tr>
<tr>
<td>Capitalisation</td>
<td>Recognising a cost as part of the cost of an asset.</td>
</tr>
<tr>
<td>Terms/Expressions</td>
<td>Definition</td>
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<tr>
<td>------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon or a recognised liability.</td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.</td>
</tr>
<tr>
<td>Cash flows</td>
<td>Inflows and outflows of cash and cash equivalents.ian</td>
</tr>
<tr>
<td>Cash-generating unit</td>
<td>The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Examples of cash-generating units include a product line, a plant, a business operation, a geographical area, or a reportable segment.</td>
</tr>
<tr>
<td>Class of assets</td>
<td>A grouping of assets of a similar nature and use in an entity’s operations.</td>
</tr>
<tr>
<td>Close members of the family of an individual</td>
<td>Those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:</td>
</tr>
<tr>
<td></td>
<td>(a) the individual’s domestic partner and children;</td>
</tr>
<tr>
<td></td>
<td>(b) children of the individual’s domestic partner; and</td>
</tr>
<tr>
<td></td>
<td>(c) dependants of the individual or the individual’s domestic partner.</td>
</tr>
<tr>
<td>Commencement of the lease term</td>
<td>The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease, ie the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate.</td>
</tr>
<tr>
<td>Compensation</td>
<td>See Employee benefits.</td>
</tr>
<tr>
<td>Components of an entity</td>
<td>Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.</td>
</tr>
<tr>
<td>Compound financial instruments</td>
<td>A financial instrument that, from the issuer’s perspective, contains both a liability and an equity element.</td>
</tr>
<tr>
<td>Consolidated financial statements</td>
<td>The financial statements of a group presented as those of a single economic entity.</td>
</tr>
<tr>
<td>Construction contract</td>
<td>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.</td>
</tr>
</tbody>
</table>
### TERMS/EXPRESSIONS

<table>
<thead>
<tr>
<th>Term/Expression</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constructive obligation</strong></td>
<td>An obligation that derives from an entity's actions where:</td>
</tr>
<tr>
<td></td>
<td>(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and</td>
</tr>
<tr>
<td></td>
<td>(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.</td>
</tr>
<tr>
<td><strong>Contingent asset</strong></td>
<td>A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.</td>
</tr>
<tr>
<td><strong>Contingent consideration</strong></td>
<td>Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.</td>
</tr>
<tr>
<td><strong>Contingent liability</strong></td>
<td>It is:</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(b) a present obligation that arises from past events but is not recognized because:</td>
</tr>
<tr>
<td></td>
<td>(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or</td>
</tr>
<tr>
<td></td>
<td>(ii) the amount of the obligation cannot be measured with sufficient reliability.</td>
</tr>
<tr>
<td><strong>Contingent rent (from a lease)</strong></td>
<td>That portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (eg percentage of future sales, amount of future use, future price indices, and future market rates of interest).</td>
</tr>
<tr>
<td><strong>Contract</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Control</strong></td>
<td>The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.</td>
</tr>
<tr>
<td><strong>Corporate assets</strong></td>
<td>Assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.</td>
</tr>
<tr>
<td>Terms/Expressions</td>
<td>Definition</td>
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</tr>
<tr>
<td><strong>Cost</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Cost plus contract</strong></td>
<td>A construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.</td>
</tr>
<tr>
<td><strong>Costs of disposal</strong></td>
<td>Incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.</td>
</tr>
<tr>
<td><strong>Costs to sell</strong></td>
<td>The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.</td>
</tr>
<tr>
<td><strong>Credit risk</strong></td>
<td>The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.</td>
</tr>
</tbody>
</table>
| **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;  
(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. |
| **Current service cost (from a defined benefit obligation)** | The increase in the present value of a defined benefit obligation resulting from employee service in the current period. |
| **Current tax** | The amount of income taxes payable or recoverable in respect of the taxable profit (tax loss) for a period. |
| **Date of transition to the financial accounting and reporting standards in accordance to the PGC - NIRF** | The first day of the earliest accounting period for which an entity prepares its first financial statements in accordance to PGC-NIRF. |
| **Deductible temporary differences** | Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. |
| **Deemed cost** | An amount used as a surrogate for cost or depreciated cost at a given date. |
## Glossary of Terms and Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Deferred tax assets</strong></td>
<td>The amounts of income taxes recoverable in future periods in respect of:</td>
</tr>
<tr>
<td></td>
<td>(a) deductible temporary differences;</td>
</tr>
<tr>
<td></td>
<td>(b) the carryforward of unused tax losses; and</td>
</tr>
<tr>
<td></td>
<td>(c) the carryforward of unused tax credits.</td>
</tr>
<tr>
<td><strong>Deferred tax liabilities</strong></td>
<td>The amounts of income taxes payable in future periods in respect of taxable temporary differences.</td>
</tr>
<tr>
<td><strong>Defined benefit plans</strong></td>
<td>Post-employment benefits plans other than defined contribution plans.</td>
</tr>
<tr>
<td><strong>Defined contribution plans</strong></td>
<td>Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.</td>
</tr>
<tr>
<td><strong>Depreciable amount (of a tangible or intangible asset)</strong></td>
<td>The cost of an asset, or other amount substituted for cost, less its residual value.</td>
</tr>
<tr>
<td><strong>Depreciation (Amortisation)</strong></td>
<td>The systematic allocation of the depreciable amount of an asset (tangible or intangible) over its useful life.</td>
</tr>
<tr>
<td><strong>Derivative</strong></td>
<td>A financial instrument or other contract with all three of the following characteristics:</td>
</tr>
<tr>
<td></td>
<td>(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;</td>
</tr>
<tr>
<td></td>
<td>(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and</td>
</tr>
<tr>
<td></td>
<td>(c) it is settled at a future date.</td>
</tr>
<tr>
<td><strong>Development</strong></td>
<td>The application of research findings or other knowledge for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.</td>
</tr>
<tr>
<td><strong>Discontinued operation</strong></td>
<td>A component of an entity that either has been disposed of or is classified as held for sale and:</td>
</tr>
<tr>
<td></td>
<td>(a) represents a separate major line of business or geographical area of operations;</td>
</tr>
<tr>
<td></td>
<td>(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or</td>
</tr>
<tr>
<td></td>
<td>(c) is a subsidiary acquired exclusively with a view to resale.</td>
</tr>
</tbody>
</table>
### Terms/Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposal group</td>
<td>A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.</td>
</tr>
<tr>
<td>Economic life</td>
<td>Either:</td>
</tr>
<tr>
<td></td>
<td>(a) the period over which an asset is expected to be economically usable by one or more users; or</td>
</tr>
<tr>
<td></td>
<td>(b) the number of production (or similar units) expected to be obtained from the asset by one or more users.</td>
</tr>
<tr>
<td>Effective interest method</td>
<td>A method of calculating the amortised cost of a financial asset (or liability) or group of financial assets (or liabilities) and of allocating the interest income (or expense) over the relevant period.</td>
</tr>
<tr>
<td>Effective interest rate</td>
<td>The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).</td>
</tr>
<tr>
<td>Embedded derivative</td>
<td>A component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>All forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity.</td>
</tr>
<tr>
<td>(Compensation)</td>
<td>It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:</td>
</tr>
<tr>
<td></td>
<td>(a) short-term employee benefits, such as wages, salaries and social</td>
</tr>
<tr>
<td>Terms/Expressions</td>
<td>Definition</td>
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<td>--------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>security contributions, paid annual</td>
<td>paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within one year of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;</td>
</tr>
<tr>
<td>leave and paid sick leave, profit-</td>
<td>(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;</td>
</tr>
<tr>
<td>sharing and bonuses (if payable</td>
<td>(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within one year after the end of the period, profit-sharing and bonuses;</td>
</tr>
<tr>
<td>within one year of the end of the</td>
<td>(d) termination benefits.</td>
</tr>
<tr>
<td>period) and non-monetary benefits</td>
<td></td>
</tr>
<tr>
<td>(such as medical care, housing,</td>
<td></td>
</tr>
<tr>
<td>cars and free or subsidised goods or</td>
<td></td>
</tr>
<tr>
<td>services) for current employees;</td>
<td></td>
</tr>
<tr>
<td>(b) post-employment benefits such</td>
<td></td>
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<tr>
<td>as pensions, other retirement</td>
<td></td>
</tr>
<tr>
<td>benefits, post-employment life</td>
<td></td>
</tr>
<tr>
<td>insurance and post-employment</td>
<td></td>
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<tr>
<td>medical care; (c) other long-term</td>
<td></td>
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<tr>
<td>employee benefits, including long-</td>
<td></td>
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<tr>
<td>service leave or sabbatical leave,</td>
<td></td>
</tr>
<tr>
<td>jubilee or other long-service</td>
<td></td>
</tr>
<tr>
<td>benefits, long-term disability</td>
<td></td>
</tr>
<tr>
<td>benefits and, if they are not</td>
<td></td>
</tr>
<tr>
<td>payable wholly within one year</td>
<td></td>
</tr>
<tr>
<td>after the end of the period, profit-</td>
<td></td>
</tr>
<tr>
<td>sharing and bonuses; (d) termination</td>
<td></td>
</tr>
<tr>
<td>benefits.</td>
<td></td>
</tr>
<tr>
<td>Entity-specific value</td>
<td>The present value of the cash flows an entity expects to arise from continuing use of an asset and from to disposal at the end of its useful life or expects to incur when settling a liability.</td>
</tr>
<tr>
<td>Equity instrument</td>
<td>A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.</td>
</tr>
<tr>
<td>Equity interests</td>
<td>Ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.</td>
</tr>
<tr>
<td>Exchange difference</td>
<td>The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.</td>
</tr>
<tr>
<td>Exchange (or currency) risk</td>
<td>The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>The ratio of exchange for two currencies.</td>
</tr>
<tr>
<td>Experience adjustments</td>
<td>The effects of differences between previous actuarial assumptions and what has actually occurred.</td>
</tr>
<tr>
<td>Exploration and evaluation assets</td>
<td>Exploration and evaluation expenditures recognised as assets in accordance with the entity’s accounting policy.</td>
</tr>
<tr>
<td>Exploration and evaluation</td>
<td>Expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.</td>
</tr>
<tr>
<td>expenditures</td>
<td></td>
</tr>
<tr>
<td>Exploration for and evaluation of</td>
<td>The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource (usually through a concession).</td>
</tr>
<tr>
<td>mineral resources</td>
<td></td>
</tr>
</tbody>
</table>
### TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

### CHAPTER 1.7 – GLOSSARY OF TERMS AND EXPRESSIONS

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value</td>
<td>The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.</td>
</tr>
<tr>
<td>Fair value less costs to sell</td>
<td>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.</td>
</tr>
<tr>
<td>Finance lease</td>
<td>A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.</td>
</tr>
<tr>
<td>Financial asset</td>
<td>Any asset that is:</td>
</tr>
<tr>
<td></td>
<td>(a) cash;</td>
</tr>
<tr>
<td></td>
<td>(b) an equity instrument of another entity;</td>
</tr>
<tr>
<td></td>
<td>(c) a contractual right:</td>
</tr>
<tr>
<td></td>
<td>(i) to receive cash or another financial asset from another entity; or</td>
</tr>
<tr>
<td></td>
<td>(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or</td>
</tr>
<tr>
<td></td>
<td>(d) a contract that will or may be settled in the entity’s own equity instruments and is:</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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.</td>
</tr>
<tr>
<td>Financial asset or financial liability at fair value through profit or loss</td>
<td>A financial asset or financial liability that meets either of the following conditions:</td>
</tr>
<tr>
<td></td>
<td>(a) A financial asset or financial liability is classified as held for trading if:</td>
</tr>
<tr>
<td></td>
<td>(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;</td>
</tr>
<tr>
<td></td>
<td>(ii) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or</td>
</tr>
<tr>
<td></td>
<td>(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).</td>
</tr>
<tr>
<td></td>
<td>(b) Upon initial recognition, it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted, or when doing so results in more relevant information,</td>
</tr>
<tr>
<td>Terms/Expressions</td>
<td>Definition</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>because either:</td>
<td>(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or</td>
</tr>
<tr>
<td>(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel.</td>
<td></td>
</tr>
<tr>
<td>Financial guarantee contract</td>
<td>A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.</td>
</tr>
<tr>
<td>Financial instrument</td>
<td>Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.</td>
</tr>
<tr>
<td>Financial liability</td>
<td>Any liability that is:</td>
</tr>
<tr>
<td>(a) a contractual obligation:</td>
<td></td>
</tr>
<tr>
<td>(i) to deliver cash or another financial asset to another entity; or</td>
<td></td>
</tr>
<tr>
<td>(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or</td>
<td></td>
</tr>
<tr>
<td>(b) a contract that will or may be settled in the entity’s own equity instruments and is:</td>
<td></td>
</tr>
<tr>
<td>(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or</td>
<td></td>
</tr>
<tr>
<td>(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 puttable financial instruments that are classified as equity instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments.</td>
<td></td>
</tr>
<tr>
<td>Firm commitment</td>
<td>A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.</td>
</tr>
<tr>
<td>Firm purchase commitment</td>
<td>An agreement with an unrelated party, binding on both parties and usually legally enforceable, that:</td>
</tr>
<tr>
<td>(a) specifies all significant terms, including the price and timing of the transactions; and</td>
<td></td>
</tr>
</tbody>
</table>
# Glossary of Terms and Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>includes a disincentive for non-performance that is sufficiently large to make performance highly probable.</td>
</tr>
<tr>
<td>Fixed price contract</td>
<td>A construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.</td>
</tr>
<tr>
<td>Forecast transaction</td>
<td>It is an uncommitted but anticipated future transaction.</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>A currency other than the functional currency of the entity.</td>
</tr>
<tr>
<td>Foreign currency transaction</td>
<td>A transaction that is denominated in or require settlement in a foreign currency.</td>
</tr>
<tr>
<td>Foreign operation</td>
<td>An entity that is a subsidiary, associate, joint venture or branch of the reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.</td>
</tr>
<tr>
<td>Forgivable loans</td>
<td>Loans which the lender undertakes to waive repayment of under certain prescribed conditions.</td>
</tr>
<tr>
<td>Functional currency</td>
<td>Currency of the primary economic environment in which the entity operates.</td>
</tr>
<tr>
<td>Future economic benefit</td>
<td>Potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.</td>
</tr>
<tr>
<td>Gain from a bargain purchase</td>
<td>See negative goodwill.</td>
</tr>
<tr>
<td>General purpose financial statements</td>
<td>Financial statements prepared to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.</td>
</tr>
<tr>
<td>Goodwill</td>
<td>An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.</td>
</tr>
<tr>
<td>Government</td>
<td>It refers to government itself, government agencies and similar bodies whether local, provincial or national.</td>
</tr>
<tr>
<td>Government assistance</td>
<td>Action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.</td>
</tr>
</tbody>
</table>
## Glossary of Terms and Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government grants</td>
<td>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.</td>
</tr>
<tr>
<td>Government grants related to assets (or grants to investment)</td>
<td>Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.</td>
</tr>
<tr>
<td>Government grants related to income (or grants to operating activity)</td>
<td>Government grants other than those related to assets.</td>
</tr>
<tr>
<td>Gross investment in the lease</td>
<td>The aggregate of: (a) the minimum lease payments receivable by the lessor under a finance lease; and (b) any unguaranteed residual value accruing to the lessor.</td>
</tr>
<tr>
<td>Group of biological assets</td>
<td>An aggregation of similar living animals or plants.</td>
</tr>
<tr>
<td>Group (or economic group)</td>
<td>A set of entities comprising a parent and all its subsidiaries.</td>
</tr>
<tr>
<td>Guaranteed residual value (in a lease)</td>
<td>It is: (a) for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee, the amount of the guarantee being the maximum amount that could, in any event, become payable; and (b) for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.</td>
</tr>
<tr>
<td>Harvest</td>
<td>The detachment of produce from a biological asset or the cessation of a biological asset's life processes.</td>
</tr>
<tr>
<td>Hedge effectiveness</td>
<td>The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.</td>
</tr>
<tr>
<td>Hedged item</td>
<td>An asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that: (a) exposes the entity to risk of changes in fair value or future cash flows; and (b) is designated as being hedged.</td>
</tr>
</tbody>
</table>
## TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

### CHAPTER 1.7 – GLOSSARY OF TERMS AND EXPRESSIONS

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging instrument</td>
<td>A designated derivative or for a hedge of the risk of changes in foreign currency exchange rates only, a designated non-derivative financial asset (or financial liability) whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.</td>
</tr>
<tr>
<td>Held for trading</td>
<td>A financial asset or financial liability at fair value through profit or loss</td>
</tr>
<tr>
<td>Held-to-maturity investments</td>
<td>Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:</td>
</tr>
<tr>
<td></td>
<td>(a) those that the entity upon initial recognition designates as at fair value through profit or loss; and</td>
</tr>
<tr>
<td></td>
<td>(b) those that the entity designates as available for sale; and</td>
</tr>
<tr>
<td></td>
<td>(c) those that meet the definition of loans and receivables.</td>
</tr>
<tr>
<td>Identifiable asset</td>
<td>An asset is identifiable if it either:</td>
</tr>
<tr>
<td></td>
<td>(a) is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or</td>
</tr>
<tr>
<td></td>
<td>(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>The amount by which the carrying amount of an asset exceeds its recoverable amount.</td>
</tr>
<tr>
<td>Inception of the lease</td>
<td>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:</td>
</tr>
<tr>
<td></td>
<td>(a) a lease is classified as either an operating or a finance lease; and</td>
</tr>
<tr>
<td></td>
<td>(b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.</td>
</tr>
<tr>
<td>Initial direct costs (of a lease)</td>
<td>Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.</td>
</tr>
<tr>
<td>Intangible asset</td>
<td>An identifiable non-monetary asset without physical substance.</td>
</tr>
<tr>
<td>Interest cost (of a defined benefit obligation)</td>
<td>The increase during a period in the present value of a defined benefit obligation, which arises because the benefits are one period closer to settlement.</td>
</tr>
<tr>
<td>Interest rate implicit in the lease</td>
<td>The discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.</td>
</tr>
</tbody>
</table>
### Terms/Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>interest rate risk</strong></td>
<td>The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.</td>
</tr>
<tr>
<td><strong>Interim period</strong></td>
<td>An accounting (or financial) reporting period shorter than a full accounting (or financial) year</td>
</tr>
<tr>
<td><strong>Interim financial report</strong></td>
<td>A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.</td>
</tr>
<tr>
<td><strong>Inventories</strong></td>
<td>Assets:</td>
</tr>
<tr>
<td></td>
<td>(a) held for sale in the ordinary course of business;</td>
</tr>
<tr>
<td></td>
<td>(b) in the process of production for such sale; or</td>
</tr>
<tr>
<td></td>
<td>(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.</td>
</tr>
<tr>
<td><strong>Investment property</strong></td>
<td>Asset (land or a 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, rather than for:</td>
</tr>
<tr>
<td></td>
<td>(a) use in the production or supply of goods or services or for administrative purposes; or</td>
</tr>
<tr>
<td></td>
<td>(b) sale in the ordinary course of business.</td>
</tr>
<tr>
<td><strong>Joint control</strong></td>
<td>The contractually agreed sharing of control over an economic activity.</td>
</tr>
<tr>
<td><strong>Key management personnel</strong></td>
<td>Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.</td>
</tr>
<tr>
<td><strong>Lease</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Lease term (or period)</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Legal obligation</strong></td>
<td>An obligation that derives from:</td>
</tr>
<tr>
<td></td>
<td>(a) a contract (through its explicit or implicit terms);</td>
</tr>
<tr>
<td></td>
<td>(b) legislation; or</td>
</tr>
<tr>
<td></td>
<td>(c) other operation of law.</td>
</tr>
</tbody>
</table>
TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

CHAPTER 1.7 – GLOSSARY OF TERMS AND EXPRESSIONS

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lessee’s incremental borrowing rate of interest</td>
<td>The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.</td>
</tr>
<tr>
<td>Liability</td>
<td>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.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.</td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:</td>
</tr>
<tr>
<td></td>
<td>(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;</td>
</tr>
<tr>
<td></td>
<td>(b) those that the entity upon initial recognition designates as available for sale; or</td>
</tr>
<tr>
<td></td>
<td>(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.</td>
</tr>
<tr>
<td>Management body</td>
<td>The body that leads an entity.</td>
</tr>
<tr>
<td>Market risk</td>
<td>The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.</td>
</tr>
<tr>
<td>Minimum lease payments</td>
<td>Payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:</td>
</tr>
<tr>
<td></td>
<td>(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or</td>
</tr>
<tr>
<td></td>
<td>(b) for a lessor, any residual value guaranteed to the lessor by:</td>
</tr>
<tr>
<td></td>
<td>(i) the lessee;</td>
</tr>
<tr>
<td></td>
<td>(ii) a party related to the lessee; or</td>
</tr>
<tr>
<td></td>
<td>(iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.</td>
</tr>
<tr>
<td></td>
<td>However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.</td>
</tr>
</tbody>
</table>
### Title 1 - Chart of Accounts Based on IFRS (PGC-NIRF)

#### Chapter 1.7 – Glossary of Terms and Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority interests</td>
<td>See <em>Non-controlling interest</em>.</td>
</tr>
<tr>
<td>Monetary assets</td>
<td>Units of currency held and assets to be received in a fixed or determinable number of units of currency.</td>
</tr>
<tr>
<td>Monetary items</td>
<td>Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.</td>
</tr>
<tr>
<td>Multi-employer plans</td>
<td>Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:</td>
</tr>
<tr>
<td></td>
<td>(a) pool the assets contributed by various entities that are not under common control; and</td>
</tr>
<tr>
<td></td>
<td>(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.</td>
</tr>
<tr>
<td>Negative goodwill (or gain from a bargain purchase)</td>
<td>Excess of fair value of assets acquired and liabilities assumed in a business combination on the consideration paid for such assets and liabilities.</td>
</tr>
<tr>
<td>Net investment in a foreign operation</td>
<td>The amount of the reporting entity’s interest in the net assets of that operation.</td>
</tr>
<tr>
<td>Net investment in the lease</td>
<td>The gross investment in the lease discounted at the interest rate implicit in the lease.</td>
</tr>
<tr>
<td>Net realisable value</td>
<td>The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.</td>
</tr>
<tr>
<td>Non-cancellable lease</td>
<td>A lease that is cancellable only:</td>
</tr>
<tr>
<td></td>
<td>(a) upon the occurrence of some remote contingency;</td>
</tr>
<tr>
<td></td>
<td>(b) with the permission of the lessor;</td>
</tr>
<tr>
<td></td>
<td>(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or</td>
</tr>
<tr>
<td></td>
<td>(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.</td>
</tr>
<tr>
<td>Non-controlling interest (or minority interest)</td>
<td>The equity part in an entity not attributable, directly or indirectly, to a parent.</td>
</tr>
<tr>
<td>Non-current asset</td>
<td>An asset that does not meet the definition of a current asset.</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>A set of explanations, justifications and further details to the amounts presented in the balance sheet, income statement, statement of changes in equity and statement of cash flows, as well as information about items not recognized in the financial statements. For the purposes of PGC-NIRF, the</td>
</tr>
</tbody>
</table>

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## GLOSSARY OF TERMS AND EXPRESSIONS

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>terms ―notes‖ and ―attachment‖ are understood</td>
<td>terms “notes” and “attachment” are understood as having the same meaning as “Notes to the financial statements”.</td>
</tr>
<tr>
<td>Obligating event</td>
<td>An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.</td>
</tr>
<tr>
<td>Onerous contract</td>
<td>A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.</td>
</tr>
<tr>
<td>Operating lease</td>
<td>A lease other than a finance lease.</td>
</tr>
<tr>
<td>Operating segment</td>
<td>A component of an entity:</td>
</tr>
<tr>
<td>Ordinary share</td>
<td>An equity instrument that is subordinate to all other classes of equity instruments. Ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated.</td>
</tr>
<tr>
<td>Other long-term employee benefits</td>
<td>Employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within one year after the end of the period in which the employees render the related service.</td>
</tr>
<tr>
<td>Owner-occupied property</td>
<td>Property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services or for administrative purposes.</td>
</tr>
<tr>
<td>Owners (or capital owners)</td>
<td>Shareholders, ordinary equity holders or other equity participants in a capital of an entity.</td>
</tr>
<tr>
<td>Parent</td>
<td>An entity that has one or more subsidiaries.</td>
</tr>
<tr>
<td>Past service cost</td>
<td>The change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or increased) or negative (when existing benefits are decreased).</td>
</tr>
<tr>
<td>Plan assets</td>
<td>Comprise:</td>
</tr>
<tr>
<td></td>
<td>(a) assets held by a long-term employee benefit fund; and (b) qualifying insurance policies.</td>
</tr>
</tbody>
</table>
### Glossary of Terms and Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-employment benefit plans</td>
<td>Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.</td>
</tr>
<tr>
<td>Post-employment benefits</td>
<td>Employee benefits (other than termination benefits) which are payable after the completion of employment.</td>
</tr>
<tr>
<td>Potential ordinary share</td>
<td>A financial instrument or other contract that may entitle its holder to ordinary shares. Examples:</td>
</tr>
<tr>
<td></td>
<td>(a) financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;</td>
</tr>
<tr>
<td></td>
<td>(b) options and warrants;</td>
</tr>
<tr>
<td></td>
<td>(c) shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.</td>
</tr>
<tr>
<td>Present value</td>
<td>A current estimate of the presented discounted value of the future net cash flows in the normal course of the business.</td>
</tr>
<tr>
<td>Present value of a defined benefit obligation</td>
<td>The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.</td>
</tr>
<tr>
<td>Presentation currency</td>
<td>The currency in which the financial statements are presented.</td>
</tr>
<tr>
<td>Previous GAAP (Previous accounting standards)</td>
<td>Relates to the PGC (Chart of Accounts) approved by Decree 36/2006, dated 25 July.</td>
</tr>
<tr>
<td>Primary financial instruments</td>
<td>Financial instruments such as receivables and payables that are not derivative instruments.</td>
</tr>
<tr>
<td>Provision</td>
<td>A is a liability of uncertain timing or amount.</td>
</tr>
<tr>
<td>Qualifying asset</td>
<td>An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.</td>
</tr>
<tr>
<td>Qualifying insurance policy</td>
<td>An insurance policy issued by an insurer that is not a related party (as defined in NCRF 24) of the reporting entity, if the proceeds of the policy:</td>
</tr>
<tr>
<td></td>
<td>(a) can be used only to pay or fund employee benefits under a defined benefit plan; and</td>
</tr>
<tr>
<td></td>
<td>(b) are not available to the reporting entity’s own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:</td>
</tr>
<tr>
<td></td>
<td>(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or</td>
</tr>
<tr>
<td></td>
<td>(ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.</td>
</tr>
</tbody>
</table>
### Terms/Expressions

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realisable value</td>
<td>The amount of cash (or cash equivalents) that could currently be obtained by selling an asset in an orderly disposal.</td>
</tr>
<tr>
<td>Recoverable amount</td>
<td>The higher of an asset’s net selling price and its value in use.</td>
</tr>
<tr>
<td>Related party</td>
<td>A party is related to an entity if:</td>
</tr>
<tr>
<td></td>
<td>(a) directly, or indirectly through one or more intermediaries, the party:</td>
</tr>
<tr>
<td></td>
<td>(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);</td>
</tr>
<tr>
<td></td>
<td>(ii) has an interest in the entity that gives it significant influence over the entity; or</td>
</tr>
<tr>
<td></td>
<td>(iii) has joint control over the entity;</td>
</tr>
<tr>
<td></td>
<td>(b) the party is an associate of the entity;</td>
</tr>
<tr>
<td></td>
<td>(c) the party is a joint venture in which the entity is a venture;</td>
</tr>
<tr>
<td></td>
<td>(d) the party is a member of the key management personnel of the entity or its parent;</td>
</tr>
<tr>
<td></td>
<td>(e) the party is a close member of the family of any individual referred to in (a) or (d);</td>
</tr>
<tr>
<td></td>
<td>(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or</td>
</tr>
<tr>
<td></td>
<td>(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.</td>
</tr>
<tr>
<td>Related party transaction</td>
<td>A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.</td>
</tr>
<tr>
<td>Reporting period (or only period)</td>
<td>See accounting period.</td>
</tr>
<tr>
<td>Research</td>
<td>Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.</td>
</tr>
<tr>
<td>Residual value of an asset</td>
<td>The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.</td>
</tr>
<tr>
<td>Restructuring</td>
<td>A programme that is planned and controlled by management, and materially changes either:</td>
</tr>
<tr>
<td></td>
<td>(a) the scope of a business undertaken by an entity; or</td>
</tr>
<tr>
<td></td>
<td>(b) the manner in which that business is conducted.</td>
</tr>
</tbody>
</table>
### TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

### CHAPTER 1.7 – GLOSSARY OF TERMS AND EXPRESSIONS

<table>
<thead>
<tr>
<th>Terms/Expressions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on plan assets</td>
<td>Interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.</td>
</tr>
<tr>
<td>Revaluation</td>
<td>Restatement of assets and liabilities.</td>
</tr>
<tr>
<td>Revenue</td>
<td>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.</td>
</tr>
<tr>
<td>Sale and lease back transaction</td>
<td>The sale of an asset and the leasing back of the same asset.</td>
</tr>
<tr>
<td>Short-term employee benefits</td>
<td>Employee benefits (other than termination benefits) that are due to be settled within one year after the end of the period in which the employees render the related service.</td>
</tr>
<tr>
<td>Significant influence</td>
<td>The power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.</td>
</tr>
<tr>
<td>Solvency</td>
<td>The availability of cash over the longer term to meet financial commitments as they fall due.</td>
</tr>
<tr>
<td>Spot exchange rate</td>
<td>The exchange rate for immediate delivery.</td>
</tr>
<tr>
<td>Statement of financial position</td>
<td>See balance sheet</td>
</tr>
<tr>
<td>Sublease</td>
<td>The lease of a leased asset.</td>
</tr>
<tr>
<td>Subsidiary</td>
<td>An entity, including an unincorporated entity such as a partnership that is controlled by another entity generally known as the parent).</td>
</tr>
<tr>
<td>Tax base (of an asset or liability)</td>
<td>The amount attributed to that asset or liability for tax purposes.</td>
</tr>
<tr>
<td>Tax expense (tax income)</td>
<td>The aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.</td>
</tr>
<tr>
<td>Taxable temporary differences</td>
<td>Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.</td>
</tr>
<tr>
<td>Temporary differences</td>
<td>Differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either taxable temporary differences, or deductible temporary differences.</td>
</tr>
</tbody>
</table>
### Termination benefits
Employee benefits payable as a result of either:

(a) an entity’s decision to terminate an employee’s employment before the normal retirement date; or
(b) an employee’s decision to accept voluntary redundancy in exchange for those benefits.

### 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.

### Unearned finance income (from a lease)
Difference between the gross investment in the lease, and the net investment in the lease.

### Unguaranteed residual value (in a lease)
That portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

### Useful life of a lease
The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.

### Useful life of an asset
Either:

(a) the period over which an asset is expected to be available for use by an entity; or
(b) the number of production or similar units expected to be obtained from the asset by an entity.

### Value in use
The present value of estimated future cash flows expected to arise from an asset or cash generating unit.

### Vested employee benefits
Employee benefits that are not conditional on future employment.
CHAPTER 1.8 – IFRS DERIVATION TABLE
8.1 The current table establishes the relationship between the accounting standards referred to in PGC-NIRF and the related Standards issued by the IASB.

8.2 For the purposes of PGC-NIRF, IAS 26 - Accounting and Reporting by Retirement Benefit Plans and IFRS 4 - Insurance Contracts were not considered to, as they are not applicable to companies to whom this Plan is intended. In addition, IAS 29 - Financial Reporting in Hyperinflationary Economies and IFRS 2 - Share-based Payment were not considered to, for failing relevance in the current context in the country.

8.3 Furthermore, there are instances where the contents of various standards of the IASB were considered a single standard of PGC-NIRF, when it revealed more adequate as they refer to interrelated matters. This is the case of:

(a) NCRF 20 - Investments in subsidiaries, associates and interests in joint ventures that includes the contents of IAS 27 - Consolidated and separate financial statements, IAS 28 - Investments in associates and IAS 31 - Interests in Joint Ventures; and

(b) NCRF 25 - Financial instruments that includes the contents of IAS 32 - Financial instruments: Presentation, IAS 39 - Financial instruments: Recognition and measurement and IFRS 7 - Financial instruments: Disclosures.

8.4 The attached table is not, nor should it be interpreted as a full correspondence table of Standards listed, but only as a guide for reference of IASs and IFRS's that were used to support the elaboration of the PGC-NIRF.

<table>
<thead>
<tr>
<th>PGC - NIRF</th>
<th>IASB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>Title</td>
</tr>
<tr>
<td>NCRF 1</td>
<td>Presentation of financial statements</td>
</tr>
<tr>
<td>NCRF 2</td>
<td>Statement of cash flows</td>
</tr>
<tr>
<td>NCRF 3</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>NCRF 4</td>
<td>Accounting policies, changes in accounting estimates and errors</td>
</tr>
<tr>
<td>NCRF 5</td>
<td>Events after balance sheet date</td>
</tr>
<tr>
<td>NCRF 6</td>
<td>Related party disclosures</td>
</tr>
<tr>
<td>NCRF 7</td>
<td>Operating segments reporting</td>
</tr>
<tr>
<td>NCRF 8</td>
<td>Interim financial reporting</td>
</tr>
<tr>
<td>NCRF 9</td>
<td>Inventories</td>
</tr>
<tr>
<td>NCRF 10</td>
<td>Construction contracts</td>
</tr>
<tr>
<td>NCRF 11</td>
<td>Agriculture and biological assets</td>
</tr>
<tr>
<td>NCRF 12</td>
<td>Current and deferred Income taxes</td>
</tr>
<tr>
<td>NCRF 13</td>
<td>Tangible assets</td>
</tr>
</tbody>
</table>
# TITLE I - CHART OF ACCOUNTS BASED ON IFRS (PGC-NIRF)

## CHAPTER 1.8 – IFRS DERIVATION TABLE

<table>
<thead>
<tr>
<th>PGC - NIRF</th>
<th>IASB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>Title</td>
</tr>
<tr>
<td>NCRF 14</td>
<td>Intangible assets</td>
</tr>
<tr>
<td>NCRF 15</td>
<td>Mineral resources</td>
</tr>
<tr>
<td>NCRF 16</td>
<td>Investment property</td>
</tr>
<tr>
<td>NCRF 17</td>
<td>Leases</td>
</tr>
<tr>
<td>NCRF 18</td>
<td>Impairment of assets</td>
</tr>
<tr>
<td>NCRF 19</td>
<td>Employee benefits</td>
</tr>
<tr>
<td>NCRF 20</td>
<td>Investments in subsidiaries, associates, and interests in joint ventures</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>NCRF 21</td>
<td>Business combinations</td>
</tr>
<tr>
<td>NCRF 22</td>
<td>Non-current assets held for sale and discontinued operations</td>
</tr>
<tr>
<td>NCRF 23</td>
<td>The effects of changes in foreign exchange rates</td>
</tr>
<tr>
<td>NCRF 24</td>
<td>Provisions, contingent liabilities, and contingent assets</td>
</tr>
<tr>
<td>NCRF 25</td>
<td>Financial instruments</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>NCRF 26</td>
<td>Accounting for government grants and disclosure of government assistance</td>
</tr>
<tr>
<td>NCRF 27</td>
<td>Borrowing costs</td>
</tr>
<tr>
<td>NCRF 28</td>
<td>Revenue</td>
</tr>
</tbody>
</table>
CHAPTER 2.1 – INTRODUCTION TO PGC-PE
TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.1 – INTRODUCTION TO PGC - PE

1. The new General Chart of Accounts (hereinafter referred to PGC - PE), replaces in full the General Chart of Accounts approved by Decree No. 36/2006 of 25 June.

2. 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.

3. The following chapters address the following subjects:

   - **Chapter 2.2 - Accounting basis, concepts and principles**
     It deals with the purpose and usefulness of financial statements, and the basis, concepts and principles that should guide the preparation.

   - **Chapter 2.3 - Criteria for the recognition and measurement**
     It deals with rules for recognition and measurement of the financial statements, including presentation and disclosure.

   - **Chapter 2.4 - Chart and codes of accounts**
     It includes a chart of accounts and sub accounts that are of general application.

   - **Chapter 2.5 - Illustrative financial statements**
     It includes the formats of balance sheet, income statement and attached notes that are generally applied.

   - **Chapter 2.6 - Content and moving of some accounts**
     It includes information on the content and moving of certain accounts provided under the chart of accounts presented in Chapter 2.4.

4. 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.
CHAPTER 2.2 – ACCOUNTING BASIS, CONCEPTS AND PRINCIPLES
CONTENTS

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QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS 18-30
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FINANCIAL STATEMENTS

Objective and usefulness

1. Financial statements form part of the process of financial reporting. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

2. Information about financial position is mainly provided by the balance sheet. Information about performance is provided mainly by the income statement.

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

Complete set of financial statements for the PGC – PE purposes

4. A set of financial statements for the PGC - PE purposes includes a balance sheet, an income statement and descriptive notes, additional information and other statements. (together known as “Explanatory Notes”) that are part of the financial statements. However, the financial statements do not include reports on the business management of an entity prepared by directors or managers.

Frequency of reporting

5. An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose the reasons for that fact in the explanatory notes.

Comparative information

6. 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

7. 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

8. The structure and content of financial statements should be in the formats presented in Chapter 2.5 of the PGC-PE. 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.

9. Financial statements shall be presented in Meticais.

Balance sheet –Current/Non-current assets and liabilities distinction

10. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in accordance with the subsequent paragraphs.
TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.2 – ACCOUNTING BASIS, CONCEPTS AND PRINCIPLES

Current assets

11. An entity shall classify an asset as current when:
   (a) it expects to realise the asset, or intends to sell or consume it, within a year after the balance sheet date;
   (b) it holds the asset primarily for the purpose of trading; or
   (c) the asset is cash.

An entity shall classify all other assets as non-current.

Current liabilities

12. An entity shall classify a liability as current when:
   (a) it expects to settle the liability within a year after the balance sheet date;
   (b) it holds the liability primarily for the purpose of trading; or
   (c) 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

13. An entity shall present all items of income and expenses recognized in the accounting period, through an income statement by nature.

14. 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.

15. An entity shall not present any items of income or expense as extraordinary items, in the income statement, or in the notes.

UNDERLYING ASSUMPTIONS

Accrual basis

16. In order to meet their objectives, 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

17. 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.

QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

18. 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

19. An essential quality of the information provided in financial statements is that it is readily understandable by
users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

Relevance

20. 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.

Materiality

21. 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.

22. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Reliability

23. 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.

Faithful representation

24. 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.

Substance over form

25. 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.

Neutrality

26. 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.

Prudence

27. 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.

Completeness

28. 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

29. 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. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.

30. 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.

THE ELEMENTS OF FINANCIAL STATEMENTS

31. 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 termed 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

32. The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

   (a) 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;

   (b) 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;

   (c) Equity is the residual interest in the assets of the entity after deducting all its liabilities.

Performance

33. 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.

34. The elements of income and expenses are defined as follows:

   (a) 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;
(b) Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

35. 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.

36. 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.
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MEASUREMENT OF THE ELEMENTS OF FINANCIAL STATEMENTS

General principle

1. 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.

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

   (a) **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.

   (b) **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.

   (c) **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; that is, the amounts of cash expected to be paid to satisfy the liabilities in the normal course of business.

3. For PGC-PE purposes the measurement adoption basis, as a general principle, is 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.

Specific principles

Inventories

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

Cost of purchase or conversion

5. 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.

6. 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.

7. 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.

8. 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.
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9. 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.

Cost of outputs and measurement of inventories

10. The cost of outputs from inventories shall be assigned by using, in principle, the weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity.

11. Inventories are measured at the cost of purchase or conversion except for under the following circumstances:

   (a) 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;
   
   (b) 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;
   
   (c) 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.

Construction contracts

12. 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.

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

Stage of completion

14. 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.

15. 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.

16. 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:

   (a) the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs;
   
   (b) surveys of work performed; or
   
   (c) completion of a physical proportion of the contract work.

Progress payments and advances received from customers often do not reflect the work performed.
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CHAPTER 2.3 – MEASUREMENT OF THE ELEMENTS OF FINANCIAL STATEMENT

Borrowing costs

17. 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.

18. 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).

19. 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.

Government grants

20. 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.

21. Government grants shall be recognised in profit or loss on a systematic basis over the necessary periods to compensate the related costs.

22. 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.

23. Government grants related to income are recognised as an income in the income statement, under the conditions presented in the paragraph 20.

Provisions

24. 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.

25. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at balance sheet date.

26. 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.

Exchange differences

27. 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.

28. 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.

29. 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.

Financial investments

30. Financial investments shall be recognised at cost.

31. When those investments have, at the balance sheet date, a carrying amount higher than the market value, the difference must be deducted from the carrying amount by the corresponding adjustment. This adjustment is recognised in profit or loss for the period. When the reasons cease to exist that led to its creation, the adjustment should be reduced or reversed.

Leases

Finance leases

32. 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.

33. 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

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

Tangible and intangible assets

Cost

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

36. 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.

37. 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.

Depreciation and amortisation

38. Each tangible or intangible asset item shall be depreciated or amortised separately. However, when one or more significant parts of an item may have a useful life and the same depreciation method may be grouped in determining the depreciation charge.

39. The depreciation charge for each reporting period shall be recognised in profit or loss unless it is included in the carrying amount of another asset (for example, the depreciation of manufacturing plant and equipment is
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included in the costs of conversion of inventories).

40. The depreciable amount of a tangible or intangible asset shall be allocated on a systematic basis over its useful life beginning when it is available for use.

41. For the purposes of PGC - PE, tangible and intangible assets shall be depreciated and amortised using the straight-line method. This method results in a constant charge over the useful life of the asset.

42. Intangible assets are amortised over a maximum period of five years unless it is justified to use a longer period.

Adjustments to assets

43. When the assets identified below are carried forward at an amount higher than the amount that is expected to recover such assets shall be reduced by the corresponding adjustments:

(a) Doubtful debts - when there is an expectation that debts will not be received, a corresponding adjustment to the respective risk of uncollectibility shall be recognised;

(b) Obsolescence or depreciation of inventories - when there is a devaluation of inventories or these may be considered obsolete or have suffered physical deterioration, the difference between the selling price and the carried amount should be recognised as an adjustment to the net realisable value;

(c) Investments - where it appears that the carried amount for each investment have a value less than their market value, the difference should be compensated through the corresponding adjustment.

When the reasons cease to exist that led to its creation, the adjustment should be reduced or reversed.
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8.9 Advanced dividends
CHAPTER 2.5 – ILLUSTRATIVE FINANCIAL STATEMENTS

Balance Sheet

Income Statement

Notes to the Financial Statements
## Balance Sheet

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Notes</th>
<th>Period n</th>
<th>Period n-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biological assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biological assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EQUITY AND LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit or loss for the period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax payables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Income Statement

By nature

<table>
<thead>
<tr>
<th>Sales of goods and services</th>
<th>Notes</th>
<th>Period n</th>
<th>Period n-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in production and work in progress</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work performed by the entity and capitalised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of inventories sold or consumed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased supplies and services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation for the period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments from inventories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments from receivables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating gains and losses for the period</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Finance income |       |          |           |
| Finance costs  |       |          |           |
| Gains/losses from associates                     |       |          |           |

**Profit or loss before tax**

| Income tax |       |          |           |

**Net profit or loss for the period**
### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>Period n</th>
<th>Period n-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales of goods and services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales of goods and services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance income/costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating gains/losses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains/losses from associates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit or loss before tax</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net profit or loss for the period</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ACCOUNTING SYSTEM FOR THE BUSINESS SECTOR IN MOZAMBIQUE

TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.5 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE

NOTES TO THE FINANCIAL STATEMENTS

Identification

(i) Name of entity:

(ii) Headquarters:

(iii) Activity nature:

(iv) Date and body that authorized the financial statements:

1. Basis of preparation

   1.1. Identification of the bases of preparation of financial statements and the currency and unit of presentation.

   1.2. Disclosure and justification for departures from the PGC-PE and their effects on the financial statements, in view of the need for these to give a true and fair view of assets, liabilities and profits or losses.

   1.3. Disclosure and comments on the accounts of the balance sheet and income statement which contents are not comparable with those of previous years.

2. Main accounting policies

   Disclosure of the significant accounting policies adopted in the preparation of the financial statements as prescribed by PGC – PE.

3. Significant judgements, accounting estimates and assumptions

   3.1 Disclosure of the significant judgements that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

   3.2 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.

4. Changes in accounting policies, estimates and errors

   4.1 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.

   4.2 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 in accounting estimate.
TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.5 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE

Notes to the Financial Statements

4.3 Disclosure of prior period errors corrected, including nature and the amount of the correction made.

5 Tangible assets

5.1 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:

<table>
<thead>
<tr>
<th>Items</th>
<th>Opening balance</th>
<th>Revaluation</th>
<th>Increases</th>
<th>Disposals</th>
<th>Transfers/retirements</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>To disclose by each item of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tangible assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Items</th>
<th>Opening balance</th>
<th>Revaluation</th>
<th>Increases</th>
<th>Disposals</th>
<th>Transfers/retirements</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>To disclose by each item of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tangible assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Carrying amount

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

5.3 Explanation of the revaluations made (when applicable)

5.4 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).

5.5 Disclosure of abnormal depreciation recognized or reversed during the period.

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

6 Intangible assets

6.1 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:
**Notes to the Financial Statements**

<table>
<thead>
<tr>
<th>Items</th>
<th>Opening balance</th>
<th>Increases</th>
<th>Disposals</th>
<th>Transfers/retirements</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cost amount</td>
<td>To disclose by each item of intangible assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Items</th>
<th>Opening balance</th>
<th>Increases</th>
<th>Disposals</th>
<th>Transfers/retirements</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortisations</td>
<td>To disclose by each item of intangible assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Carrying amount | | |

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

6.3 Disclosure of abnormal amortisations recognised or reversed during the period.

### 7 Inventories

7.1 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:

<table>
<thead>
<tr>
<th>Changes</th>
<th>Goods</th>
<th>Finished and intermediate goods</th>
<th>Raw Materials</th>
<th>Biological assets</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross carrying amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Adjustments**

<table>
<thead>
<tr>
<th></th>
<th>Opening balance</th>
<th>Increase</th>
<th>Decrease</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net carrying amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

(a) inventories held by third parties;

(b) inventories on consignment;
ACCOUNTING SYSTEM FOR THE BUSINESS SECTOR IN MOZAMBIQUE

TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.5 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE

Notes to the Financial Statements

(c) inventories in transit.

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

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

<table>
<thead>
<tr>
<th>Changes</th>
<th>Goods</th>
<th>Raw materials, ancillary and other materials</th>
<th>Biological assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories at the beginning of period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories adjustments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories at the end of the period</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cost of the period

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

<table>
<thead>
<tr>
<th>Changes</th>
<th>Finished and intermediate goods</th>
<th>By-products, waste and scrap</th>
<th>Work in progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories at the end of the period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories adjustments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories at the beginning of period</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Increase/decrease of the period

8 Trade and other receivables

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

<table>
<thead>
<tr>
<th>Changes</th>
<th>Trade receivables</th>
<th>Other debtors</th>
<th>Other receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross carrying amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Net carrying amount

9 Equity

9.1 Disclosure of the amounts of realised and non realised capital.

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

9.3 Disclosure of the nature and purpose of each reserve.
Notes to the Financial Statements

10 Provisions

10.1 Reconciliation between the carrying amount at the beginning and end of the period as follows:

<table>
<thead>
<tr>
<th>Items</th>
<th>Opening balance</th>
<th>Increase</th>
<th>Decrease</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>To disclose by each item of provisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11 Government grants

Disclosure of the nature and extent of government grants recognised in the financial statements.

12 Commitments and contingencies

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.

13 Disclosures required by legislation

Disclosure of the information required by other legislation in force with impact on the activity of the entity.

14 Other information

Disclosure of relevant information for better understanding of the financial position and performance.

15 Events after balance sheet date

15.1 Disclosure of information received after the balance sheet date about conditions that existed at the balance sheet date.

15.2 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.
CHAPTER 2.6 – CONTENT AND ACCOUNTING ENTRIES OF SOME ACCOUNTS
TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.6 – CONTENT AND ACCOUNTING ENTRIES OF SOME ACCOUNTS

CLASS 1 - FINANCIAL RESOURCES

1.1 Cash
This account is used to record transactions made in cash or by cheque.

1.2 Bank
It comprises the financial resources available to an entity through the use of bank accounts as well as, short-term financial investments considered to be highly liquid.

CLASS 2 - INVENTORIES AND BIOLOGICAL ASSET

2.1 Purchases
It records the cost of purchases of inventories and biological assets for consumption or sale. It includes additional charges incurred on bringing the purchases to their present storage location. It is debited by credit of the accounts 1.1 - Cash or 1.2 - Bank and account 4.2 – Trade payables, as the purchases are made in cash or on a specific term. The balance of this account will always be processed to the accounts 2.2 - Goods or 2.6 - Raw materials and other supplies, depending on whether the goods were purchased for sale or processing.

2.2 Goods
It includes goods to be sold without any processing. If the inventory is used intermittently, this account is debited at the beginning of the year by the beginning balance of goods, and at the end of the year, by the net purchases made during the year by credit of 2.8.2 – Inventory adjustments, when the balance of the latter is positive. It is credited at the end of the year, by debit of 6.1.1.2 - Cost of inventories sold or consumed and 2.8.2 – Inventory adjustments, when the balance of the latter is negative. The remaining balance shows the value of closing inventories. If using the perpetual inventory, this account is debited, throughout the year, by credit of 2.1.1 - Purchases and is credited also during the year, according to a criterion of periodicity advisable, by debit 6.1.1.2 - Cost of inventories sold and consumed, in accordance with the criterion of measurement used. The remaining balance shows the value of closing inventories.

2.3 Finished and intermediate goods
It includes the main goods produced by the company usually tradeable and those which being commonly used in manufacturing of main goods can be sold separately.

2.4 By-products, waste and scrap

2.4.1 By-products
It relates to secondary goods produced in conjunction with the main production.

2.4.2 Waste and scrap
It comprises waste from the production process other than by-products.

2.5 Work in progress
Includes goods whose manufacturing stage does not achieve its sale or its storage conditions, and services not yet been finalized. If used intermittent inventory, accounts 2.3 and 2.5 are credited at the end of the year, by debit of the account 6.1.2 - Change of production for the value of the closing balance of the previous year. It is debited also at the end of the year, by credit of 6.1.2 - Change of production for the amount based on the stock count of that year. If using the perpetual inventory, there will be during the year, an articulation between 2.3 and 2.5 accounts and cost accounting model adopted to determine the cost of production, as well as a correlation.
between the stock count and existing accounting records. At the closing date, all the accounting entries are made in the same manner as previously described.

2.6 Raw materials and other supplies

2.6.1 Raw materials

Main materials to be incorporated in manufactured products under the normal production activity.

2.6.2 Ancillary materials

Materials used in the manufacturing process that are complementary incorporated in manufactured products.

2.6.3 Other materials

Materials acquired or produced by the company, which concurs through its consumption, for the development of the company’s activity.

2.6.3.2 Packaging

Essential goods for packaging and trading of goods or products traded, which by their nature are not intended for continued use. If the intermittent inventory is used, this account is debited at the beginning of the year by the beginning balance of packaging, and at the end of the year, by the net purchases made during the year and also by credit of 2.8.6 – Inventory adjustments, when the balance of the latter is positive. It is credited at the end of the year, by debit of 6.1.1.6 - Cost of inventories sold or consumed and to 2.8.6 – Inventory adjustments, when the balance of the latter is negative. The remaining balance shows the value of closing inventories. If using the perpetual inventory, this account is debited, throughout the year, by credit of 2.1.2 - Purchases and is credited also during the year according to a criterion of periodicity advisable, by debit of 6.1.1.6 - Cost of inventories sold and consumed in accordance with the criterion of measurement used. The remaining balance shows the value of closing inventories.

2.8 Inventory adjustments

This account is used to record changes in inventories that are not related to purchasing, selling or consumption, particularly those arising from recording breaks or abnormal leftovers, in and outgoings related to gifts. In the case of inventory gifts the account will be credited by debit of 6.8.9.3 - Other operating expenses. It will be credited by debit of 6.8.4.2 - Losses on inventories. It will be debited by credit of 7.6.4.2 - Gains in inventories in case of abnormal leftovers, or 7.6.4.9 - Gains in inventories. At the end of the year, the balances are processed by their transfer to the accounts 2.2 - Goods and 2.6 – Raw materials and other supplies.

2.9 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.

CLASS 3 - CAPITAL INVESTMENTS

Accounts 3.2.1 up to 3.2.9 are debited by credit of 1.1 - Cash or 1.2 - Bank, where the acquisition is in cash or 4.6.1 - Capital expenditure creditors where the acquisition is at a term. Transfers from the account 3.4 – Assets under construction, are also charged to these accounts. They are credited by a profitable sale or compensation received for claims by debit of the accounts 7.6.3.1 - Gains from capital investments in the event of sale or 7.6.3.2 - Gains from capital investments in case of claims. In the event of sale or compensation received at loss they are credited by debit of 6.8.3.1 - Losses in capital investments – Disposals or 6.8.3.3 - Losses in capital investments – Claims. In the event of retirement, they are credited by debit of 3.8.2 – Accumulated depreciation
and if the accounts do not remain nil, the balance will be transferred to 6.8.3.2 - Losses in capital investments – 
Retirements.

3.1 Financial investments
It includes the investment of a permanent nature, and investments in urban or rural real estate, which are not 
allocated to the company’s operations.

3.2 Tangible assets
It comprises the company’s assets held for use in its operating activities, which are not intended to be sold or 
processed, and are expected to be used for a period greater than one year. It also includes the improvements 
and major repairs that increased the value of those assets.

3.2.1 Buildings
It comprises the buildings and incorporated fixed installations (water, energy, etc.). It also includes other 
construction, including roads, bridges, dams, irrigation, runways, docks, railways, tunnels, wells, walls, silos, 
parks, canals and piers. The buildings and facilities classified as public domain, operated under a licensing 
scheme should be reflected in appropriate sub ledgers.

3.2.2. Equipment
It comprises a set of tools, machinery, equipment and other property, other than tools and utensils considered in 
regard to 3.2.6 - Tools and utensils with which or through which an entity extract, transform or develop products 
or provide services. The basic equipment, operating on licensing scheme and finance lease should be reflected 
in appropriate sub ledgers. It comprises also expenses which are incurred to adaptation or installation required 
for the intended use of the asset. If the company’s activity is related to transport or administrative services, the 
equipment of this nature relating to such activities are also included in this account.

3.2.5 Returnable containers
It comprises goods intended to contain or to pack the goods acquired or produced by the company, or to pack 
goods traded by the company in the case of returnable containers with required capability for continued use.

3.2.6 Tools and utensils
It includes instruments that are not of rapid wear, considering as such those with a useful life exceeding one year, 
and whose use is intended to complement the equipment installed or to support the various units of the company.

3.3 Intangible assets
3.3.1 Development costs
It includes charges related to a development project at pre-production phase resulting from the application of 
technology findings.

3.3.2 Intellectual property and other rights
It includes patents, trademarks, permits, licenses, concessions and copyright as well as other rights and similar 
contracts.

3.3.3 Goodwill
It comprises the value of acquiring the right to occupation and operation of an establishment.

3.3.4 Set-up or expansion costs
It includes charges for the establishment and organization of the company, as well as those related to its 
expansion, particularly with capital increase, studies and projects.
3.4 Assets under construction

It includes additions, improvements or replacements while the investments are not completed. It is debited by credit to the accounts 1.1 - Cash, 1.2 - Bank, 4.6.1 - Capital expenditure creditors, or if they are internally produced to 7.3 - Work performed by the entity and capitalized. It is credited for its transfer to the accounts 3.2 - Tangible assets or 3.3 - Intangible assets, according to its nature.

3.8 Accumulated depreciation and amortisation

This account represent the part of the value of tangible and intangible assets that was charged as cost to the income statement over several accounting periods, representing the loss of value of those assets as a result of their timing or degree of use or technological obsolescence. It is credited by debit of 6.5 - Depreciation and amortisation for the period. It is debited by the disposal or compensation for claims, by credit to the accounts 6.8.3 - Losses in capital investments or 7.6.3 - Gains in capital investments, depending on the result was negative or positive. In the case of retirements, it is also debited by credit to the corresponding accounts of tangible and intangible assets.

3.9 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.

CLASS 4 - ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, ACCRUALS, AND DEFERRALS

4.1 Trade receivables

4.1.2 Securities receivable

It includes debts from trade receivables represented by securities not yet at maturity date.

4.1.9 Advances from clients

It records received amounts by the company on behalf of future supplies. By issuing the invoice for goods supplied or services rendered, the balance will be transferred to the account 4.1.1 - Trade receivables - current account.

4.2 Trade payables

4.2.2 Securities payable

It includes credits from suppliers who are represented by notes or other securities.

4.2.9 Advances to suppliers

It records deliveries made by the company on behalf of future supplies. The balance will be transferred to the account 4.2.1 - Trade payables – current account upon receipt of the invoice issued by the supplier corresponding to the goods supplied or services rendered.

4.3 Borrowings

It includes borrowings, except for those provided in regard to the account 4.6.7 - Creditors - partners, shareholders or owners.

4.4 State

4.4.1 Income tax

4.4.1.1 Tax estimate
This account is credited at the end of the period, by debit of the estimated payable tax recorded in the account 8.5 – *Income tax*. It is debited by credit to the accounts 1.1 - *Cash* or 1.2 - *Bank*, upon delivery of the tax to the State. In the case of an individual owner of a company, the amount of tax to be considered is related only to the business activity.

4.4.1.2 **Progress payment and 4.4.1.3 – Special progress payment**

It records in the debit by credit to the accounts 1.1 - *Cash* or 1.2 - *Bank*, the amount of advances and special payment on account that the company made during the year and it is credited on the delivery of the final tax to the State.

4.4.2 **Withholding tax**

It records on credit, the amount of withholding taxes applied in the allocation of income to beneficiaries. It records on debit withholding taxes that were collected in different categories of income earned by the company during the year, by credit to the accounts of revenues that were derived from, in the event of being considered payments on account of tax due at final. It is also debited by credit to the account 1.1 - *Cash* or 1.2 - *Bank*, upon delivery of the amounts withheld to the State.

4.4.3 **Value added tax**

4.4.3.1 **Input VAT**

It shows the input VAT paid on all purchases of inventories, tangible and intangible assets and other goods and services. Being of optional use, it is advisable to record this account where the taxable person has not full right to deduct the input VAT, i.e, when the company has simultaneously transactions with right to deduction along with others without this right (pro rata method). If the taxable person uses the actual allocation method the use of this account may be of less interest. It is debited on all purchases made, broken down into different sub ledgers according to their origin. It is credited by debit of the corresponding sub ledger 4.4.3.2 – *VAT deductible*, and the balance, if any, will be credited by debit of the accounts related to their acquisitions, or the account 6.8.2.2 - *Value Added Tax*, except for purchases of tangible and intangible assets where the non deductible input VAT will increase the acquisition cost of those assets.

4.4.3.2 **Deductible VAT**

It shows the VAT amount, which, given the nature of the underlying transactions is likely to deduct pursuant to the VAT Tax Code. It is debited by the amounts of input VAT on purchases, by credit to 4.4.3.1 – *Input VAT* in cases where the taxable person uses this account. It is credited by transferring the balance related to the tax period to debit of the account 4.4.3.5 - *VAT assessment*.

4.4.3.3 **Assessed VAT**

It shows the debit to the State arising from sales of goods or services made by the taxable person to their customers or by their purchases, if any, provided that such transactions are subject to effective taxation. This account is credited by the assessed tax on invoices or equivalent documents issued by taxable person, in most cases in the account 4.4.3.3.1 - *Assessed VAT for general transactions*. The accounting entries in the accounts 4.4.3.3.2 – *Assessed VAT for self consumption and gifts*, and 4.4.3.3.3 – *Assessed VAT for special transactions* are reserved for situations specifically provided for in the VAT Tax Code. It is debited by credit to 4.4.3.5 - *VAT assessment*.

4.4.3.4 **VAT adjustments**

It records tax adjustments favorable to the taxable person or to the State distributed by related sub ledgers and likely to be filled in their returns. The account 4.4.3.4.1 - *Monthly adjustments favorable to the taxpayer* is debited when the adjustments arise from mistakes in the tax assessment, goods returned from customers, reductions,
terminations and cancellations of contracts by customers, bad debts, etc by credit to the accounts that led to the adjustment. It is credited by debit of the account 4.4.3.5 - VAT assessment.

4.4.3.5 VAT assessment

It shows the creditor or debtor position of the taxable person behind the State. It is debited against the accounts 4.4.3.2 - VAT deductible, 4.4.3.4 - VAT adjustments and 4.4.3.8 - VAT recoverable. It is credited against accounts 4.4.3.3 - Assessed VAT and 4.4.3.4 - VAT adjustments. If the balance resulting from previous transactions is a credit this account is debited by credit to the account 4.4.3.7 - VAT payable and otherwise, it is credited by debit of the account 4.4.3.8 - VAT recoverable.

4.4.3.6 VAT assessed by Tax Authorities

It shows the amount of assessed tax on the initiative of the Tax Authority under the conditions provided by the VAT Code. It is debited by credit to 4.4.3.7 - VAT payable. If the assessment is nullified, the previous entry will be reversed. Having payment be made this account will be adjusted according to the comments set out in respect of the account 4.4.3.7 - VAT payable.

4.4.3.7 VAT payable

It shows the amount of tax payable to the State by the taxable person. It is credited by debit of the accounts 4.4.3.5 - VAT assessment, or 4.4.3.6 - VAT assessed by Tax Authorities. It is debited by credit to the accounts 1.1 - Cash or 1.2 - Bank, by the payment actually made. Having payment be made of VAT assessed by Tax Authorities the entry in the account 4.4.3.6 - VAT assessed by Tax Authorities will be reversed upon the accounting assessment of the tax payable related to the tax period.

4.4.3.8 VAT recoverable

It shows the amount of tax credit from the State at the end of each tax period. This occurs when the amount of tax in favor of the taxable person exceeds the amount of tax in favor to the State. The account is debited by credit to 4.4.3.5 - VAT assessment for transfer of the balance in favor of the taxable person assessed in the latter at the end of the tax period. It is credited by debit of the accounts 4.4.3.9 - VAT requested refunds, when a refund is applied to the State, or 4.4.3.5 - VAT assessment, when carrying forward the tax credit was elected to the next tax period.

4.4.3.9 VAT requested refunds

It shows the amount of tax credit over the State for which has been filed for refund. The account is debited against 4.4.3.8 - VAT recoverable, and it is credited against the accounts 1.1 - Cash or 1.2 - Bank, upon its receipt from the State.

4.4.4 Remaining taxes

4.4.4.1 Stamp duty

It records in the credit side, by debit of 6.8.2.3 - Taxes and levies or the account related to the entity that bears the burden of tax by the amount of the stamp duty paid. It is debited, by credit to the accounts 1.1 - Cash or 1.2 - Bank, upon payment to the State Treasury.

4.5 Other receivables

4.5.2 Subscribers of Capital

It records capital subscription by their respective holders, whose realisation will be made later. This account will be debited at the time of subscription by credit to 5.1 - Share capital. Subsequently, on the realisation date made by their owners, it will be credited by debiting such accounts that materialize the realisation.
4.5.4 Debtors – partners, shareholders or owners

4.5.4.3 Distributed profits or losses

It records profits of associated companies, which, although allocated, have not yet been made available, or the coverage of losses by shareholders, following decisions taken in a board meeting. It is debited by credit to 7.8.3 - *Income from financial investments*, in the allocation of profits not yet made available to the company, or to 8.8 - *Net profit or loss for the period* once it has been decided the coverage of losses by the shareholders. It is credited by debit of the account 4.5.4.4 – *Available profits*.

4.5.4.4 Available profits

This account records the accounting entries related to the profits made available by the associated companies, directly or through the transfer of profits distributed when there is mismatch between the time they were distributed and their provision. It is debited in the first case, by credit to 7.8.3 - *Income from financial investments* and, in the second, by credit to 4.5.4.3 - *Distributed profits or losses*. It is credited by debit of the accounts 1.1 – *Cash* or 1.2 - *Bank*.

4.5.9 Other debtors

It records, in particular, the transactions arising from disposals of equity investments, loans or other debts, which should not be combined with the accounts 4.5.4 - *Debtors partners, shareholders or owners* and 4.5.1 – *Employees*.

4.6 Other payables

4.6.1 Capital expenditure creditors

It records transactions with sellers of goods or services for tangible and intangible assets.

4.6.2 Employees

4.6.2.1 Remuneration payable to corporate bodies and 4.6.2.2 - Remuneration payable to employees

It is used to post wages, salaries and other remunerations for the month to which they relate:

The sub ledgers of the account 6.2 – *Staff expenses* are debited by credit to the accounts 4.6.2.1 or 4.6.2.2, for the payable net amounts; and 4.4.2.1 – *Withholding tax*; 4.4.9 - *INSS contributions*; 4.6.3 – *Trade Unions*; and even the sub ledgers of 4.5.1 - *Employees*, if applicable.

To post charges on wages, corresponding to the employer:

The account 6.2.3 – *Charges on remunerations* is debited by credit to 4.4.9 - *Contributions to the INSS*.

For payments to staff and other entities:

The accounts referred to above are debited by crediting 1.1 - *Cash* or 1.2 - *Bank*.

4.6.7 Creditors – partners, shareholders or owners

It records transactions with the holders of capital, other than related to transactions of inventories or capital investments.

4.7 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.
4.8 Provisions
This account is used to record the liabilities arising from the risks in such situations when it provided there is likelihood of their occurrence.

4.9 Accruals and deferrals
4.9.1 Accrued expenses and 4.9.2 - Deferred income
These accounts are intended to record the expenses and income in the period concerned. Accrued expenses include expenses for the current period, which will be paid and accounted for as such in the following periods. Deferred income includes the income accounted for in the current period that relates to subsequent periods.

4.9.3 Accrued income and e 4.9.4 - Deferred expenses
Accrued income is that income related to the current period, but that will only be received and accounted for as such in the following periods. Deferred expenses are those expenses accounted for in the current period but which relate to subsequent periods.

CLASS 5 - EQUITY
5.1 Share capital
It is intended to record the value of the nominal capital subscribed of the companies that have a corporate form. In Individual ownerships, this account reflects the initial capital and acquired, and also the accounting entries of financial nature related to the owner. It also serves to record the capital of cooperatives.

5.2 Treasury shares
The account 5.2.1 - Nominal value is debited by the nominal value of the shares acquired, and the account 5.2.2 - Discounts and premiums is debited by the difference between the acquisition cost and nominal value. Subsequently, if the shares are disposed, there will be a credit to 5.2.1 – Nominal value rated at nominal value, and to 5.2.2 - Discounts and premiums for the difference between the selling price and nominal value. At the same time, the necessary adjustments will be made to the account 5.2.2 against reserves to show the discounts and premiums related to treasury shares that remain held.

5.3 Supplementary capital
It is intended to record the deliveries of members who have that nature as defined under the Commercial Code.

5.4 Share premium
It records the difference between the issue price of the shares subscribed and their nominal value. It records on credit side, the difference between the subscription value and the nominal value when the latter is lower than the first, by debit of 4.5.2 – Subscribers of Capital. The account is debited by credit to 5.1 – Share capital when its value is embedded in the company’s capital.

5.5 Reserves
5.5.1 Legal reserves
It is intended to record the reserves required by law.

5.6 Surplus on revaluation of tangible and intangible assets
It is intended to record the credits of the adjustments made to the value of tangible assets.
TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.6 – CONTENT AND ACCOUNTING ENTRIES OF SOME ACCOUNTS

5.9 Retained earnings

It serves to post the accounting entries related to the members’ resolution on coverage for losses or distribution of the net profits for the previous period. The account is debited by credit to 8.8 - Net loss for the previous period, if the balance is negative, or transfer of the account balance of 8.9 – Advanced dividends and the distribution of retained profits according to the resolution passed. It is credited by debit of 8.8 - Net profit for the period, if the balance is positive and by the resolutions passed to cover accumulated losses.

CLASS 6 – EXPENSES AND LOSSES

6.1.1 Cost of inventories sold or consumed

It serves to post the output of the inventories sold or incorporated into the production process. It will be charged by the accounting entries related to outputs from inventories made during the period, when the perpetual inventory is applied. It may be charged only at the end of the period if the intermittent inventory is applied. The account is debited by credit to the accounts 2.2 - Goods or 2.6 - Raw materials and other supplies. It is credited by debit of 8.1 - Operating profit or loss.

6.2 Staff expenses

6.2.3 Charges on remuneration

It includes the burden on staff remuneration, compulsory borne by the employer.

6.2.5 Allowances

It comprises the pre-established funds allotted to employees, when traveling in the service of the company.

6.2.8 Expenses of social nature

It records accomplishments of social utility, on an optional basis, for employees or their families.

6.3 Purchased supplies and services

6.3.1 Subcontracts

This account covers the work related to the company’s production process for which the service of other companies were used, through contracts formalized or not.

6.3.2.1.3.1 Diesel

It records the purchases amount of diesel, including the amount of input and not deductible VAT according to the provisions of the VAT Code.

6.3.2.1.3.2 Fuel – Other

It records the purchases amount of fuel, including the amount of input VAT, where its deduction is not allowed under the VAT Code.

6.3.2.1.3.3 Lubricants

It records the purchases amount of lubricants, net of input VAT.

6.3.2.1.4 Fast wear and tear tools

It records the purchase of tools and utensils whose useful life does not exceed the period of one year in conditions of normal use.
TITLE II – GENERAL ACCOUNTING PLAN (PGC-PE)

CHAPTER 2.6 – CONTENT AND ACCOUNTING ENTRIES OF SOME ACCOUNTS

6.3.2.2.1 Maintenance and repair
It includes goods and services purchased for the maintenance of tangible assets, which, as they do not contribute either to increase the useful life of the asset or its value, it should not be considered major repairs.

6.3.2.2.3 Staff transport
It records the costs of transportation of staff relating to their workplace, when it has been provided on continued basis, and carried out by third parties.

6.3.2.2.5 Fees
It records remunerations paid to independent professionals.

6.3.2.2.6 Commissions to intermediaries
It records payments made to entities that on their own, intermediated sales of goods or services.

6.3.2.2.8 Travel and accommodation
It records the costs of transportation, food and accommodation outside of the workplace, other than supported by travel allowances.

6.3.2.3.2 Hire and rental charges
It records the amounts paid for property lease or rental of equipment. It excludes payments of assets used under a finance lease contract, but it records rentals paid for assets used under an operating lease.

6.3.2.3.3 Insurance
It records the insurance premiums charged to the company, except for that related to the staff, which are included in the account 6.2 – Staff expenses.

6.3.2.3.7 Specialised services
It records the costs of the acquisition of technical services, including computer services, laboratory analysis, typographical works, studies and opinions.

6.6 Provisions for the period
It records at the end of the period, the estimate risk in different types of provisions laid down, which have features of operating costs.

6.8 Other operating expenses and losses

6.8.3 Losses in capital investments
It records losses incurred in the disposals, claims and retirement of capital investments. The account is debited by credit to the accounts 3.1 – Financial investments, 3.2 – Tangible assets or 3.3 – Intangible assets, for the cost of investments sold or claimed. It is credited at the selling price or compensation received by debit of the accounts 1.1 - Cash, 1.2 - Bank or 4.5.9 - Other debtors, and the account 3.8 – Accumulated depreciation. It records also in the debit, by credit to the account 3.2 – Tangible assets, for part of the value of assets that have not been depreciated.

6.8.4 Losses in inventories and biological assets
It records losses incurred in inventories resulting from accidents, abnormal breaks or similar situations. It is debited by the cost of inventories by credit to 2.8 – Inventory adjustments. In the case of claims, resulting in a loss on inventories, the compensation fee will be credited by debiting the accounts 1.1 - Cash, 1.2 - Bank or 4.5.9 – Other debtors.
6.8.9.3 Gifts and inventory samples
It records gifts and inventories samples by credit to 2.8 – Inventory adjustments.

6.8.9.4 Social responsibility programs
It comprises accomplishments of social utility arising out of contracts with the State.

6.9 Finance costs and losses

6.9.4 Foreign exchange losses
It records the unfavourable exchange differences related to the normal activity of the company and the financing of tangible and intangible assets.

CLASS 7 – REVENUE AND GAINS

7.1 Sales
It records the sale of goods in the course of normal activity of the company.

7.1.5 VAT from sales with tax included
It records the amount of output VAT that should be excluded from the value of sales during the period, when recorded with tax included.

7.2 Services rendered
It records the work and services rendered related to the objectives or purposes of the company.

7.2.1 VAT from services rendered with tax included
It records the amount of output VAT that should be excluded from the value of services rendered during the period when recorded with tax included.

7.3 Work performed by the entity and capitalised
Investments made by the company under its direct management by applying its own resources or acquired for that purpose which are incorporated in its tangible asset.

7.4 Reversals for the period

7.4.1 Reversals of adjustments, 7.4.2 – Reversals of depreciation and amortisation and 7.4.3 – Reversals of provisions
They record the reversals of adjustments, depreciation and provisions previously made that at the date of the balance sheet are considered unnecessary. They are credited against their related accounts of adjustments, depreciation and provisions contained in the balance sheet.

7.5 Supplementary income
It records the income related to the value added, arising from activities other than inherent to the main objectives of the company.

7.6 Other operating income and gains
It records the income, not related to the value added, arising from activities other than inherent to the main objectives of the company.

7.6.3 Gains from capital investments
It records the gain on disposal, or on claims of capital investments. It is debited, by credit to the accounts 3.1 – Financial Investments, 3.2 – Tangible assets or 3.3 - Intangible assets, for the cost of capital investments sold or
7.6.4 Gains in inventories and biological assets

It records gains on inventories resulting from claims, abnormal leftovers or similar situations. In case of a gain arising from claims, it is debited by the cost of inventories, by credit to the account 2.8 – Inventory adjustments. It is credited by debit of 1.1 - Cash, 1.2 - Bank or 4.5.9 – Other debtors. When surpluses or other abnormal earnings occur, it is credited by debit of 2.8 – Inventory adjustments.

7.8 Finance income and gains

7.8.4 Foreign exchange gains

It records the favorable exchange differences related to the normal activity of the company and the financing of tangible and intangible assets.

CLASS 8 – PROFIT OR LOSS

8.1 Operating profit or loss

It is intended to process, at the year-end, the accounts of expenses and revenues recorded in the accounts 6.1 up to 6.8 and 7.1 up to 7.6.

8.2 Finance profit or loss

It is intended to process, at the year-end, the accounts 6.9 and 7.8.

8.3 Profit or loss before tax

It carries the closing balances of the accounts 8.1 and 8.2.

8.5 Income tax

It reflects the amount of tax that is expected to be paid related to the profits obtained, and it is debited by crediting the account to 4.4.1.1 – Income tax estimate.

8.8 Net profit or loss for the period

It processes the balances of the previous accounts.

8.9 Advanced dividends

It records the amount of profits allocated during the year by companies to their members, in accordance with the legal and statutory terms, in advance for the profits of the period in which they are assigned. The account is debited by credit to the account 4.5.4.2 - Debtors: partners, shareholders or owners at the time of assignment. At beginning of subsequent period the account is credited by debit of 5.9 - Retained earnings.