FINANCIAL REPORTING STANDARDS FOR NON-PUBLIC INTEREST ENTREPRISES

FRS for Large-sized Enterprises

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Introduction

Objective of the standard

The Law on accounting n°47/NA 26 December 2013, distinguishes two categories of enterprises to prepare their financial statements: public interest enterprises and non-public interest enterprises. To be complied with the socio-economic context of Lao PDR that comprises many sizes of non-public interest enterprises and to facilitate each enterprise size to apply financial reporting standards appropriate to its size, the Ministry of Finance divides non-public interest enterprises into large-sized enterprises (LEs), small and medium-sized enterprises (SMEs), and micro-enterprises.

Public interest enterprises shall apply **International Financial Reporting Standards** (International Financial Reporting Standards, IFRSs [1]). Non-Public interest enterprises which are large-sized enterprises and small and medium-sized enterprises, shall apply **Financial Reporting Standards for non- Public interest enterprises** which are divided into two parts such as for large-sized enterprises (refer as to financial reporting standards for large-sized enterprises, FRS for LEs) and for small and medium-sized enterprises (refer as to financial reporting standards for small and medium-sized enterprises, FRS for SMEs).

Very small enterprises shall apply **Accounting Guideline for very small enterprises** under which transactions and other events are recognized when cash or its equivalent is received or paid.

Financial Reporting Standards for non-Public Interest Enterprises are accounting standards adapted from International Financial Reporting Standards for Small and Medium-sized Enterprises (IFRS for SMEs).

Lao regulation prescribes quantified size criteria for determining what is **a large-sized enterprise** or a **small and medium-sized enterprise** or a **very small enterprise**.

Large-sized enterprises shall apply Financial Reporting Standard for Large-sized Enterprises (FRS for LEs) unless otherwise provided in this FRS.

Comparison with IFRS for SMEs

To maintain comparability between the IFRS for SMEs and the FRS for LEs, numbering of sections is identical. Sometimes section is adapted with one or several changes or deleted (see list at the end of each section).

One section of IFRS for SMEs has not been retained in FRS for LEs- Section 31: *Hyperinflation* – because the Kip, functional currency, is not the currency of a

[1] Called also full IFRSs in the LRS.

hyperinflationary economy. Moreover, if the Government authorizes enterprise to have a foreign currency as functional currency (see Law on accounting art. 7), it will authorise never the currency of a hyperinflationary economy.

Terms “entity” and “enterprises” are used equally.

Terms defined in the Glossary are in **bold type** the first time they appear in each section.

Section 1 Large-sized enterprises

Intended scope of this Financial Reporting Standard for Large-sized Enterprises

1.1 The *FRS for LEs* is intended for use by **large-sized enterprises**. This section describes the characteristic of LEs.

Description of large-sized enterprises

1.2 Large-sized enterprises are enterprises that:

(a) aren't a **public interest enterprises** (PIEs) or aren't a subsidiary of a parent which applies International Financial Reporting Standards (IFRS), and

(b) publish **general purpose financial statements** for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies, and

(c) exceed the limits of the criteria fixed by the Lao regulation, or

(d) have one or several subsidiaries, or

(e) enter into more complex financial instruments and transaction than basic financial instruments (see Section11 and 12).

1.3 An enterprise is a public interest enterprise if:

(a) its debt or equity instruments are traded in a regulated market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks, or

(c) it is designated as public interest enterprise by the Minister of Finance.

1.4 Some enterprises may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the enterprise. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), they are not public interest enterprises.

1.5 If a public interest enterprise uses this FRS, its financial statements shall not be described as conforming to the *FRS for LEs*.

1.6 LEs may choose to apply *IFRS* and SMEs may choose to apply *FRS for LEs*. The Ministry of Finances defines the provisions for these options.

A non-public interest enterprise controlled by a parent that applies *International Financial Reporting Standards* shall apply *International Financial Reporting Standards*.

If the financial statements are described as conforming to the *FRS for LEs,* they must comply with all of the provisions this FRS.

Comparison with IFRS for SMEs	
1.1	The IASB decided to use "small and medium-sized enterprises" to refer to all enterprises that are not public interest enterprises. Law on accounting distinguishes three categories of enterprises non-public interest enterprises: large enterprises, small and medium enterprises and very small enterprises. The large enterprises apply FRS for LEs unless otherwise provided in this FRS.
1.2 (c), (d), and (e)	"Public interest enterprise" is used instead of "public accountability". The criteria - size, control, complex instruments – are particular to FRS.
1.3 (a)	The situation of subsidiaries is not in IFRS for SMEs.
1.3 (c)	This situation is not in IFRS for SMEs.
1.6	A large-sized enterprise is not prohibited from using full IFRS, but it shall request prior permission from the Ministry of Finance. According to the Law on accounting (art.16), a subsidiary whose parent uses full IFRSs, is prohibited from using this FRS in its separate financial statements even if that subsidiary is not a public interest enterprise. It shall apply full IFRS.

Section 2 Concepts and Pervasive Principles

Scope of this section

2.1 This section describes the **objective of financial statements** of **large-sized enterprises** (LEs) and the qualities that make the information in the financial statements of LEs useful. It also sets out the concepts and basic principles underlying the financial statements of LEs.

Objective of financial statements of large-sized enterprises

2.2 The objective of financial statements of a large-sized enterprise is to provide information about the **financial position**, **performance** and **cash flows** of the enterprise that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

2.3 Financial statements also show the results of the stewardship of management — the accountability of management for the resources entrusted to it.

Qualitative characteristics of information in financial statements

Understandability

2.4 The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

Relevance

2.5 The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of **relevance** when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Materiality

2.6 Information is **material** - and therefore has relevance - if its omission or misstatement could influence the economic decisions of users made 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. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the *FRS for LEs* to achieve a particular presentation of an enterprise's financial position, financial performance or cash flows.

Reliability

2.7 The information provided in financial statements must be **reliable**. Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias (ie not neutral) if, by the selection or presentation of

information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Substance over form

2.8 Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the reliability of financial statements.

Prudence

2.9 The uncertainties that inevitably surround many events and circumstances are acknowledged 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 the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

Completeness

2.10 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

2.11 Users must be able to compare the financial statements of an enterprise through time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout an enterprise and over time for that enterprise, and in a consistent way across enterprises. In addition, users must be informed of the **accounting policies** employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes.

Timeliness

2.12 To be relevant, financial information must be able to influence the economic decisions of users. **Timeliness** involves providing the information within the decision time frame. 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. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.

Balance between benefit and cost

2.13 The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is substantially a judgemental process. Furthermore, the costs are not necessarily borne by those users who enjoy the benefits, and often the

benefits of the information are enjoyed by a broad range of external users.

2.14 Financial reporting information helps capital providers make better decisions, which results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. Individual enterprises also enjoy benefits, including improved access to capital markets, favourable effect on public relations, and perhaps lower costs of capital. The benefits may also include better management decisions because financial information used internally is often based at least partly on information prepared for general purpose financial reporting purposes.

Financial position

2.15 The financial position of an enterprise is the relationship of its assets, liabilities and equity as of a specific date as presented in the **statement of financial position**. These are defined as follows:

(a) An **asset** is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

(b) A **liability** is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

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

2.16 Some items that meet the definition of an asset or a liability may not be recognised as assets or liabilities in the statement of financial position because they do not satisfy the criteria for **recognition** in paragraphs 2.27–2.32. In particular, the expectation that future economic benefits will flow to or from an enterprise must be sufficiently certain to meet the probability criterion before an asset or liability is recognised.

Assets

2.17 The future economic benefit of an asset is its potential to contribute, directly or indirectly, to the flow of cash and **cash equivalents** to the enterprise. Those cash flows may come from using the asset or from disposing of it.

2.18 Many assets, for example property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset. Some assets are intangible.

2.19 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 enterprise controls the benefits that are expected to flow from the property.

Liabilities

2.20 An essential characteristic of a liability is that the enterprise has a present obligation to act or perform in a particular way. The obligation may be either a legal obligation or a **constructive obligation**. A legal obligation is legally enforceable as a consequence of a binding contract or statutory requirement. A constructive obligation is an obligation

that derives from an enterprise's actions when:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the enterprise has indicated to other parties that it will accept particular responsibilities, and

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

2.21 The settlement of a present obligation usually involves the payment of cash, transfer of other assets, provision of services, the replacement of that obligation with another obligation, or conversion of the obligation to equity. An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

Equity

2.22 Equity is the residual of recognised assets minus recognised liabilities. It is subclassified in the statement of financial position. For example, in a corporate enterprise, subclassifications may include funds contributed by shareholders, retained earnings and gains or losses recognised directly in equity.

Performance

2.23 **Performance** is the relationship of the income and expenses of an enterprise during a **reporting period**. This FRS permits enterprises to present performance in a single financial statement (a **statement of comprehensive income)** or in two financial statements (an **income statement** and a statement of comprehensive income) only in the **consolidated financial statements**. In the **separate financial statements**, enterprises shall present performance in two financial statements (an income statement and a statement of comprehensive income). **Total comprehensive income** and **profit or loss** are frequently used as measures of performance or as the basis for other measures, such as return on investment or earnings per share. Income and expenses are defined as follows:

(a) **Income** is increases in economic benefits during the reporting 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 investors.

(b) **Expenses** are decreases in economic benefits during the reporting 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 investors.

2.24 The recognition of income and expenses results directly from the recognition and measurement of assets and liabilities. Criteria for the recognition of income and expenses are discussed in paragraphs 2.27–2.32.

Income

2.25 The definition of income encompasses both revenue and gains.

(a) **Revenue** is income that arises in the course of the ordinary activities of an enterprise and is referred to by a variety of names including sales, fees, interest, dividends, royalties and rent.

(b) **Gains** are other items that meet the definition of income but are not revenue. When gains are recognised in the statement of comprehensive income, they are usually displayed separately because knowledge of them is useful for making economic decisions.

Expenses

2.26 The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the enterprise.

(a) **Expenses** that arise in the course of the ordinary activities of the enterprise 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, or property, plant and equipment.

(b) **Losses** are other items that meet the definition of expenses and may arise in the course of the ordinary activities of the enterprise. When losses are recognised in the statement of comprehensive income, they are usually presented separately because knowledge of them is useful for making economic decisions.

Recognition of assets, liabilities, income and expenses

2.27 Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expenses and satisfies the following criteria:

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

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

2.28 The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the **accounting policies** used or by **notes** or explanatory material.

The probability of future economic benefit

2.29 The concept of probability is used in the first recognition criterion to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the enterprise. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items.

Reliability of measurement

2.30 The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases, it 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 a reasonable estimate cannot be made, the item is not recognised in the financial statements.

2.31 An item that fails to meet the recognition criteria may qualify for recognition at a later

date as a result of subsequent circumstances or events.

2.32 An item that fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes or explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is relevant to the evaluation of the financial position, performance and changes in financial position of an enterprise by the users of financial statements.

Measurement of assets, liabilities, income and expenses

2.33 **Measurement** is the process of determining the monetary amounts at which an enterprise measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This FRS specifies which measurement basis an enterprise shall use for many types of assets, liabilities, income and expenses.

2.34 Two common measurement bases are historical cost and fair value:

(a) For assets, historical cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances (for example, income tax) the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business. **Amortised historical cost** is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognised as expense or income.

(b) **Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Pervasive recognition and measurement principles

2.35 The requirements for recognising and measuring assets, liabilities, income and expenses in this FRS are based on pervasive principles that are derived from the *IASB The Conceptual Framework for Financial Reporting*, **full IFRS** and from **IFRS for SMEs**. In the absence of a requirement in this FRS that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an enterprise to follow in deciding on the appropriate accounting policy in the circumstances. The second level of that hierarchy requires an enterprise to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.

Accrual basis

2.36 An enterprise shall prepare its financial statements, except for cash flow information, using the **accrual basis** of accounting. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Recognition in financial statements

Assets

2.37 An enterprise shall recognise an asset in the statement of financial position when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably. An asset is not recognised in the statement of financial position when expenditure has been incurred for which it is considered not probable that economic benefits will flow to the enterprise beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the statement of comprehensive income (or in the income statement, if presented) of the consolidated financial statements and in the income statement or in the statement of comprehensive income of separate financial statements.

2.38 An enterprise shall not recognise a **contingent asset** as an asset. However, when the flow of future economic benefits to the enterprise is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Liabilities

2.39 An enterprise shall recognise a liability in the statement of financial position when

(a) the enterprise has an obligation at the end of the reporting period as a result of a past event,

(b) it is probable that the enterprise will be required to transfer resources embodying economic benefits in settlement, and

(c) the settlement amount can be measured reliably.

2.40 A **contingent liability** is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 2.39. An enterprise shall not recognise a contingent liability as a liability, except for contingent liabilities of an acquiree in a business combination (see Section 19 *Business Combinations and Goodwill*).

Income

2.41 The recognition of income results directly from the recognition and measurement of assets and liabilities. In the consolidated financial statements, an enterprise shall recognise income in the statement of comprehensive income (or in the income statement, if presented) when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. In the separate financial statements, an enterprise shall recognise income in the income statement or in the statement of comprehensive income when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

Expenses

2.42 The recognition of expenses results directly from the recognition and measurement of assets and liabilities. In the consolidated financial statements, an enterprise shall recognise expenses in the statement of comprehensive income (or in the income statement, if presented) when a 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. In the separate financial statements, an enterprise shall recognise expenses in the income statement or in the statement of comprehensive income when a 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.

Total comprehensive income and profit or loss

2.43 Total comprehensive income is the arithmetical difference between income and expenses. It is not a separate element of financial statements, and a separate recognition principle is not needed for it.

2.44 Profit or loss is the arithmetical difference between income and expenses other than those items of income and expense that this FRS classifies as items of other comprehensive income. It is not a separate element of financial statements, and a separate recognition principle is not needed for it.

2.45 This FRS does not allow the recognition of items in the statement of financial position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as the "matching concept" for measuring profit or loss.

Measurement at initial recognition

2.46 At initial recognition, an enterprise shall measure assets and liabilities at historical cost unless this FRS requires initial measurement on another basis such as fair value.

Subsequent measurement

Financial assets and financial liabilities

2.47 An enterprise measures basic **financial assets** and basis **financial liabilities**, as defined in Section 11 *Basic Financial Instruments*, at amortised cost less impairment except for investments in non convertible and non-puttable preference shares that are **publicly traded** or whose fair value can otherwise be measured reliably, which are measured at fair value with changes in fair value recognised in profit or loss.

2.48 An enterprise generally measures all other financial assets and financial liabilities at fair value, with changes in fair value recognised in profit or loss, unless this FRS requires or permits measurement on another basis such as cost or amortised cost.

Non-financial assets

2.49 Most non-financial assets that an enterprise initially recognised at historical cost are subsequently measured on other measurement on other measurement bases. For example:

(a) An enterprise measures property, plant and equipment at the lower of depreciated cost and **recoverable amount**.

(b) An enterprise measures inventories at the lower of cost and selling price less costs to complete and sell.

(c) An enterprise recognises an impairment loss relating to non-financial assets that

are in use or held for sale.

Measurement of assets at those lower amounts is intended to ensure that an asset is not measured at an amount greater than the enterprise expects to recover from the sale or use of that asset.

2.50 For the flowing types of non-financial assets, this FRS permits or requires measurement at fair value.

(a) investments in **associates** and **joint-ventures** that an enterprise measures at fair value (se paragraphs14.10 and 15.15 respectively).

(b) **investment property** that an enterprise measures at fair value less estimated costs to sell (see paragraph 16.7).

(c) agricultural assets (**biological assets** and **agricultural produce** at the point of harvest) that an enterprise measures at fair value less estimated costs to sell (see paragraph 34.2)

Liabilities other than financial liabilities

2.51 Most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the **reporting date**.

Offsetting

2.52 An enterprise shall not offset assets and liabilities, or income and expenses, unless required or permitted by this FRS.

(a) Measuring assets net of valuation allowances —for example, allowances for inventory obsolescence and allowances for uncollectible receivables — is not offsetting.

(b) If an enterprise's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the enterprise reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the **carrying amount** of the asset and related selling expenses.

Comparison with IFRS for SMEs	
2.15	IFRS for SMEs allows to use "balance sheet" instead of "statement of financial position" (see IFRS for SMEs § 4.1). Law on accounting use statement of financial position (art.31).
2.22	IFRS for SMEs allows to subclassify equity in the statement of financial position. FRS require to subclassify equity in the statement of financial position.
2.23 2.37 2.41 2.42	IFRS for SMEs allows to present performance either: • in a single financial statement (a statement of comprehensive income), or • in two financial statements (an income statement and a statement of comprehensive income). In the separate financial statements, FRS for LEs does not allow to present performance in a single financial statement. This paragraph is modified.

Section 3 Financial Statement Presentation

Scope of this section

3.1 This section explains **fair presentation** of **financial statements** what compliance with the *FRS for LEs* requires and what is a complete set of financial statements.

Fair presentation

3.2 Financial statements shall present fairly the **financial situation**, financial **performance** and **cash flows** of an enterprise. 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 Section 2 *Concepts and Pervasive Principles*.

(a) The application of the *FRS for LEs*, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of LEs.

(b) As explained in paragraph 1.5, the application of this FRS by an entity with public accountability does not result in a fair presentation in accordance with this FRS.

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this FRS is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the enterprise's financial position and financial performance.

Compliance with the FRS for LEs

3.3 An enterprise whose financial statements comply with the *FRS for LEs* shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with the *FRS for LEs* unless they comply with all the requirements of this FRS.

3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in this FRS would be so misleading that it would conflict with the **objective of financial statements** of large enterprises set out in Section 2, the enterprise shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:

(a) the nature of the requirement in this FRS, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in Section 2.

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Going concern

3.8 When preparing financial statements, the management of an enterprise using this FRS shall make an assessment of the enterprise's ability to continue as a going concern. An

enterprise is a going concern unless management either intends to liquidate the enterprise or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the **reporting date**.

3.9 When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that cast significant doubt upon the enterprise's ability to continue as a going concern, the enterprise shall disclose those uncertainties. When an enterprise 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 enterprise is not regarded as a going concern.

Frequency of reporting

3.10 An enterprise shall present a complete set of financial statements (including comparative information–see paragraph 3.14) at least annually. When the end of an enterprise's **reporting period** changes and the annual financial statements are presented for a period longer or shorter than one year, the enterprise shall disclose the following:

(a) that fact,

(b) the reason for using a longer or shorter period,

(c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

3.11 An enterprise shall retain the presentation and classification of items in the financial statements from one period to the next unless this FRS requires a change in presentation.

3.12 When the presentation or classification of items in the financial statements is changed, an enterprise shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an enterprise shall disclose the following:

(a) the nature of the reclassification.

(b) the amount of each item or class of items that is reclassified.

(c) the reason for the reclassification.

3.13 If it is impracticable to reclassify comparative amounts, an enterprise shall disclose why reclassification was not practicable.

Comparative information

3.14 Except when this FRS permits or requires otherwise, an enterprise shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An enterprise shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Complete set of financial statements

3.17 A complete set of financial statements of an enterprise shall include all of the following:

(a) a **statement of financial position** as at the **reporting date**.

(b) in the **consolidated financial statements** either:

(i) a single **statement of comprehensive income** for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining **profit or loss** (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income,** or

(ii) a separate **income statement** and a separate statement of comprehensive income. If an enterprise chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.

(b/1) in the **separate financial statements**, an **income statement** and a **statement of comprehensive income** that begins with profit or loss and then displays the items of **other comprehensive income**.

(c) a **statement of changes in equity** for the reporting period.

(d) a **statement of cash flows** for the reporting period.

(e) notes, comprising a summary of significant accounting policies and other explanatory information.

Statement of financial position, income statement, statement of comprehensive income and statement of changes in equity are produced in compliance with the formats approved by the Minister of Finance.

3.19 If an enterprise has no items of other comprehensive income in any of the periods for which financial statements are presented, it shall present a income statement of comprehensive income.

3.20 Because paragraph 3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an enterprise shall present, as a minimum, two of each of the required financial statements and related notes.

3.21 In a complete set of financial statements, an enterprise shall present each financial statement with equal prominence.

Identification of the financial statements

3.23 An enterprise shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an enterprise shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting enterprise and any change in its name since the end of

the preceding reporting period.

(b) whether the financial statements cover the individual enterprise or a **group** of enterprises.

(c) the date of the end of the reporting period and the period covered by the financial statements.

(d) the **presentation currency**, as defined in Section 30 *Foreign Currency Translation* if the enterprise is authorized by the Government to present also in foreign currency.

(e) the level of rounding, if any, used in presenting amounts in the financial statements.

3.24 An enterprise shall disclose the following in the notes:

(a) the domicile and legal form of the enterprise, the address of its registered office.

(b) a description of the nature of the enterprise's operations and its principal activities.

Presentation of information not required by this FRS

3.25 This FRS does not address presentation of segment information, earnings per share, or interim financial reports by a large-sized enterprise. An enterprise making such disclosures shall describe the basis for preparing and presenting the information.

Comparison with IFRS for SMEs	
3.4 to 3.7	FRS prohibit to depart from its requirements: the enterprise shall give the disclosures of paragraph 3.7 if management concludes that compliance with this FRS would be so misleading that it would conflict with the objective of financial statements set out in this Section 2. Paragraphs 3.4 à 3.6 are deleted and paragraph 3.7 is modified.
3.11 (a) (b)	This standard defines standardized form of financial statements. This paragraphs are deleted.
3.17 (b)	IFRS for SMEs allows to present performance either: • in a single financial statement (a statement of comprehensive income), or • in two financial statements (an income statement and a statement of comprehensive income). In the separate financial statement, FRS for LEs does not allow to present performance in a single financial statement.
3.17	The end of this paragraph indicates that financial statements are produced in compliance with the formats approved by the Ministry of Finances.
3.19	In accordance of IFRS for SMEs, when an enterprise has no items of other comprehensive income in any the periods for which financial statements are presented, it may present only an income statement or a statement of comprehensive income. In accordance of FRS, it does not exempt to present a statement of comprehensive income. This paragraph is modified.
3.22	FRS for LEs requires standardized formats. This paragraph is deleted.
3.23 (d)	Enterprise that is authorized to present financial statement in foreign currency must also them in Kip (see Law on accounting art. 7 and Section 30 *Foreign Currency Translation*).

Section 4 Statement of Financial Position

Scope of this section

4.1 This section sets out the information that is to be presented in a **statement of financial position** and how to present it. The statement of financial position presents an enterprise's **assets**, **liabilities** and **equity** as of a specific date - the end of the reporting period.

Information to be presented in the statement of financial position

4.2 The statement of financial position includes items of the statement of financial position and among others the following amounts:

(a) cash and cash equivalents.

(b) trade and other receivables.

(c) **financial assets** (excluding amounts shown under (a), (b), (j) and (k)).

(d) i**nventories**.

(e) **property, plant and equipment**.

(f) **investment property** carried at fair value through profit or loss.

(g) i**ntangible assets**.

(h) **biological assets** carried at cost less accumulated depreciation and impairment.

(i) biological assets carried at fair value through profit or loss.

(j) investments in **associates**.

(k) in the presentation of **separate financial statements**, investments in **subsidiaries** and investments in jointly controlled enterprises

in the presentation of separate financial statements and in the presentation of **consolidated financial statements.** investments in jointly controlled enterprises

(l) trade and other payables.

(m) **financial liabilities** (excluding amounts shown under (l) and (p)).

(n) liabilities and assets for **current tax**.

(o) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as non-current).

(p) **provisions**.

(q) **non-controlling interest**, presented within **equity** separately from the equity attributable to the **owners** of the parent in the presentation of consolidated financial statements.

(r) equity attributable to the owners of the parent in the presentation of consolidated financial statements. In separate financial statements, amount equity is given

only.

Statement of financial position is produced in compliance with the format approved by the Minister of Finance.

4.3 An enterprise shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the enterprise's **financial position**.

Current/non-current distinction

4.4 An enterprise shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 4.5–4.8.

Current assets

4.5 An enterprise shall classify an asset as current when:

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

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

(c) it expects to realise the asset within twelve months after the reporting date; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

4.6 An enterprise shall classify all other assets as non-current. When the enterprise's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Current liabilities

4.7 An enterprise shall classify a liability as current when:

(a) it expects to settle the liability in the enterprise's normal operating cycle;

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

(c) the liability is due to be settled within twelve months after the reporting date; or

(d) the enterprise does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

4.8 An enterprise shall classify all other liabilities as non-current.

Sequencing of items and format of items in the statement of financial position

4.9 Paragraph 4.2 provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position.

Statement of financial position is produced in compliance with the format approved by the Minister of Finance. But, line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the enterprise's financial position.

4.10 The judgement on whether additional items are presented separately is based on an assessment of all of the following:

(a) the amounts, nature and liquidity of assets.

(b) the function of assets within the enterprise.

(c) the amounts, nature and timing of liabilities.

Information to be presented in the notes

4.11 An enterprise shall disclose, in the notes, the following sub classifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the enterprise.

(b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed.

(c) inventories, showing separately amounts of inventories:

(i) held for sale in the ordinary course of business.

(ii) in the process of production for such sale.

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals.

(e) provisions for **employee benefits** and other provisions.

(f) classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense that, as required by this FRS, are recognised in other comprehensive income and presented separately in equity.

4.12 An enterprise with share capital shall disclose the following in the notes:

(a) for each class of share capital:

(i) the number of shares authorised.

(ii) the number of shares issued and fully paid, and issued but not fully paid.

(iii) par value per share, or that the shares have no par value.

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period.

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.

(vi) shares in the enterprise held by the enterprise or by its subsidiaries or associates.

(vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

(b) a description of each reserve within equity.

4.14 If, at the reporting date, an enterprise has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the enterprise shall disclose the following information:

(a) a description of the asset(s) or the group of assets and liabilities.

(b) a description of the facts and circumstances of the sale or plan.

(c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

Comparison with IFRS for SMEs	
4.1 4.3	IFRS for SMEs allows to use "balance sheet" instead of "statement of financial position" (see IFRS for SMEs § 4.1). Law on accounting use "statement of financial position" (art.31).
4.2	Statement of financial position is standardized. This paragraph is modified.
4.2 (k)	In separate financial statements, the amount of subsidiaries shall indicate. This paragraph is modified.
4.2 (q) and (r)	These items are given only in consolidated financial statements. These paragraphs are modified.
4.4	Statement of financial position is standardized. FRS for LEs does not permit the presentation based on liquidity.
4.9	This paragraph is modified because financial statements are standardized but line items can be included.
4.11 and 4.12	Financial statements are standardized. FRS for LEs does not permit to presented items either in the statement of financial position or the notes. The items of the paragraphs 4.11 and 4.12 should present in the notes.
4.13	The Lao companies are never without share capital. Only sole proprietorship enterprises have no share capital. This paragraph is deleted.

Section 5 Statement of Comprehensive Income and Income Statement

Scope of this section

5.1 This section requires an enterprise to present its **total comprehensive income** for a period - ie its financial **performance** for the period - in one or two **financial statements** in its **consolidated financial statements** and in two **financial statements** in its **separate financial statements**. It sets out the information that is to be presented in these statements and how to present it.

Presentation of total comprehensive income in the consolidated financial statements

5.2 An enterprise shall present its total comprehensive income for a period either:

(a) in a single **statement of comprehensive income,** in which case the statement of comprehensive income presents all items of income and expense recognised in the period, or

(b) in two statements **–** an **income statement** and a **statement of comprehensive income**. in which case the income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of **profit or loss** as permitte or required by this FRS.

5.3 A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 *Accounting Policies, Estimates and Errors* applies.

Single-statement approach

5.4 Under the single-statement approach, the statement of comprehensive income includes all items of income and expense recognised in a period unless this FRS requires otherwise. This FRS provides different treatment for the following circumstances:

(a) The effects of corrections of errors and changes in **accounting policies** are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10 *Accounting Policies, Estimates and Errors*).

(b) Three types of **other comprehensive income** are recognised as part of total comprehensive income, outside of profit or loss, when they arise:

(i) some **gains** and **losses** arising on translating the **financial statements** of a foreign operation (see Section 30 *Foreign Currency Translation*)

(ii) some actuarial gains and losses (see Section 28 *Employee Benefits*).

(iii) some changes in fair values of hedging instruments (see Section 12 *Other Financial Instruments Issues*).

5.5 As a minimum, an enterprise shall include line items of the standardized income

statement and among others the following amounts for the period:

(a) revenue.

(b) finance costs.

(c) share of the profit or loss of investments in **associates** (see Section 14 *Investments in Associates*) and **jointly controlled enterprises** (see Section 15 *Investments in Joint Ventures*) accounted for using the equity method.

(d) **tax expense** excluding tax allocated to items (e), (g) and (h) below (see paragraph 29.27).

(e) a single amount comprising the total of:

(i) the post-tax profit or loss of a **discontinued operation**, 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 net assets constituting the discontinued operation.

(f) profit or loss. (if an enterprise has no items of other comprehensive income, this line need not be presented).

(g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)).

(h) share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method.

(i) total comprehensive income (if an enterprise has no items of other comprehensive income, it may use another term for this line such as profit or loss).

5.6 An enterprise shall disclosure separately the following items in the statement of comprehensive income as allocations for the period:

(a) profit or loss for the period attributable to :

(i) **non-controlling interest**.

(ii) **owners** of the parent.

(b) total comprehensive income for the period attributable to :

(i) non-controlling interest.

(ii) owners of the parent.

Two-statement approach

5.7 Under the two-statement approach, the income statement shall display, as a minimum, line items that present the amounts in paragraph 5.5(a)–5.5(f) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the

amounts in paragraph 5.5(g)–5.5(i) and paragraph 5.6 for the period.

Requirements applicable to both approaches

5.8 Under this FRS, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10 *Accounting Policies, Estimates and Errors*).

5.9 An enterprise shall present additional line items, headings and subtotals in the income statement and in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the enterprise's financial performance.

5.10 An enterprise shall not present or describe any items of income and expense as "extraordinary items" in the statement of comprehensive income (or in the income statement, if presented) or in the notes.

Presentation of total comprehensive income in the separate financial statements

5.2/1 An enterprise shall present its total comprehensive income for a period in two statements – an **income statement** and a **statement of comprehensive income –** .The income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of profit or loss as required by this FRS. These two statements are standardized.

Income statement

5.4/1 The income statement includes all items of income and expense recognised in a period unless this FRS requires otherwise. This FRS provides different treatment for the following circumstances:

(a) The effects of corrections of errors and changes in **accounting policies** are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10 *Accounting Policies, Estimates and Errors*).

(b) Three types of **other comprehensive income** are recognised in statement of comprehensive income, outside of profit or loss, when they arise:

(i) some **gains** and **losses** arising on translating the **financial statements** of a foreign operation (see Section 30 *Foreign Currency Translation*)

(ii) some actuarial gains and losses (see Section 28 *Employee Benefits*).

(iii) some changes in fair values of hedging instruments (see Section 12 *Other Financial Instruments Issues*).

5.5/1 An enterprise shall include line items of the standardized income statement and among others the following amounts for the period:

(a) **revenue**.

(b) finance costs.

(d) **tax expense** excluding tax allocated to items (e), (5.5/2 (a)) and (5.5/2 (b)) below (see paragraph 29.27).

(e) a single amount comprising the total of:

(i) the post-tax profit or loss of a **discontinued operation**, 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 net assets constituting the discontinued operation.

(j) profit or loss.

Statement of comprehensive income

5.5/2 The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, separately the following items for the period:

(a) each item of other comprehensive income (see paragraph 5.4/1(b)) classified by nature (excluding amounts in (b)).

(c) total comprehensive income.

Requirements applicable

5.8/1 Under this FRS, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10 *Accounting Policies, Estimates and Errors*).

5.9/1 An enterprise shall present additional line items, headings and subtotals in the income statement and in the statement of comprehensive income, when such presentation is relevant to an understanding of the enterprise's financial performance.

5.10/1 An enterprise shall not present or describe any items of income and expense as "extraordinary items" in the income statement, in the statement of comprehensive income or in the notes.

Analysis of expenses

5.11 In its income statement of consolidated financial statements, an enterprise shall present an analysis of expenses using a classification based on the nature of expenses or the function of expenses within the enterprise, whichever provides information that is reliable and more relevant.

An enterprise shall present the expenses using a classification based on the nature of expenses in its income statement of separate financial statements. It could present a second income statement using a classification of expenses based on their function.

Analysis by nature of expense

(a) Under this method of classification, expenses are aggregated in the statement of comprehensive income according to their nature (eg depreciation, purchases of

materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the enterprise.

Analysis by function of expense

(b) Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an enterprise discloses its cost of sales under this method separately from other expenses

Comparison with IFRS for SMEs	
Section 5	Many provisions of this Section are modified because the one-statement approach is prohibited in the separate financial statements by FRS for LEs (see also FRS for SMEs). Also this Section distinguishes the consolidated financial statements and the separate financial statements. Paragraphs which treat separate financial statements are created (5.2/1, …).
5.11	The classification of expenses based on the nature is mandatory in the income statement of separate financial statements. A second income statement of separate financial statements could be presented with the analysis of expenses by function. This paragraph is modified.

Section 6 Statement of Changes in Equity

Scope of this section

6.1 This section sets out requirements for presenting the changes in an enterprise's equity for a period in a **statement of changes in equity**.

Statement of changes in equity

Purpose

6.2 The statement of changes in equity presents an enterprise's profit or loss for a **reporting period**, items of income and expense recognised in **other comprehensive income** for the period, the effects of changes in **accounting policies** and corrections of errors recognised in the period, and the amounts of investments by, and dividends and other distributions to, equity investors during the period.

Information to be presented in the statement of changes in equity

6.3 An enterprise shall present a statement of changes in equity showing in the statement:

(a) **total comprehensive income** for the period, showing separately the total amounts attributable to **owners** of the parent and to non-controlling interests.

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

(c) for each component of equity, reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss.

(ii) each item of other comprehensive income.

(iii) the amounts of investments by, and dividends and other distributions to, owners, showing separately issues of shares, treasury share transactions, dividends and other distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control.

Comparison with IFRS for SMEs	
§ 6.1, 6.4 and 6.5	FRS for LEs does not allow the presentation of statement of income and retained earnings (cf. Law on accounting art.31).

Section 7 Statement of Cash Flows

Scope of this section

7.1 This section sets out the information that is to be presented in a **statement** of **cash flows** and how to present it. The statement of cash flows provides information about the changes in **cash** and **cash equivalents** of an enterprise for a **reporting period**, showing separately changes from **operating activities**, **investing activities** and **financing activities**.

Cash equivalents

7.2 **Cash equivalents** are short-term, highly liquid investments held to meet short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an enterprise's cash management, bank overdrafts are a component of cash and cash equivalents.

Information to be presented in the statement of cash flows

7.3 An enterprise shall present a statement of cash flows that presents **cash flows** for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

7.4 Operating activities are the principal **revenue**-producing activities of the enterprise. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions 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 and on behalf of employees.

(e) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities.

(f) cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale.

Some transactions, such as the sale of an item of plant by a manufacturing enterprise, may give rise to a gain or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

7.5 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets and other long-term assets.

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets.

(c) cash payments to acquire equity or debt instruments of other enterprises and interests in joint ventures (other than payments for those instruments classified as cash equivalents or held for dealing or trading).

(d) cash receipts from sales of equity or debt instruments of other enterprises and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading).

(e) cash advances and loans made to other parties.

(f) cash receipts from the repayment of advances and loans made to other parties.

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

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

When a contract is accounted for as a hedge (see Section 12 *Other Financial Instruments Issues*), an enterprise shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

Financing activities

7.6 Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an enterprise. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments.

(b) cash payments to owners to acquire or redeem the enterprise's shares.

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term 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

7.7 An enterprise shall present cash flows from operating activities using either:

(a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows, or

(b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as **depreciation**, **provisions**, **deferred tax**, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, and in consolidated financial statements undistributed profits of **associates**, and **non-controlling interests**; and

(c) all other items for which the cash effects relate to investing or financing.

Direct method

7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

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

(b) by adjusting sales, cost of sales and other items in the statement of comprehensive income (or the income statement, if presented) of the **consolidated financial statements** and in the income statement of **separate financial statements** for:

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Reporting cash flows from investing and financing activities

7.10 An enterprise shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities.

Foreign currency cash f lows

7.11 An enterprise shall record cash flows arising from transactions in a foreign currency in

the enterprise's **functional currency** by applying to the foreign currency amount the exchange rate between the enterprise's functional currency and the foreign currency at the date of the cash flow.

7.12 The enterprise shall translate cash flows of a foreign subsidiary at the exchange rates between enterprise's functional currency and the foreign currency at the dates of the cash flows.

7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the statement of cash flows. Therefore, the enterprise shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The enterprise shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Interest and dividends

7.14 An enterprise shall present separately cash flows from interest and dividends received and paid. The enterprise shall classify cash flows consistently from period to period as operating, investing or financing activities.

7.15 The enterprise classifies interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the enterprise may classify interest paid and interest and dividends received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

7.16 The enterprise classifies dividends paid as a component of cash flow from operating activities because they are paid out of operating cash flows. Alternatively, the enterprise may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Income tax

7.17 An enterprise shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities, unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the enterprise shall disclose the total amount of taxes paid.

Non-cash transactions

7.18 An enterprise shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An enterprise shall disclose such transactions elsewhere in the **financial statements** in a way that provides all the relevant information about those investing and financing activities.

7.19 Many investing and financing activities do not have a direct impact on current cash

flows even though they affect the capital and asset structure of an enterprise. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease.

(b) the acquisition of an enterprise by means of an equity issue.

(c) the conversion of debt to equity.

Components of cash and cash equivalents

7.20 An enterprise shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial position. However, an enterprise is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial position.

Other disclosures

7.21 An enterprise shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the enterprise. Cash and cash equivalents held by an enterprise may not be available for use by the enterprise because of, among other reasons, foreign exchange controls or legal restrictions.

Comparison with IFRS for SMEs	
7.4 (e) 7.17	Cash payments or refunds of income tax are forever cash flow from operating activities.
7.9 (b)	This paragraph distinguishes the consolidated financial statements and the separate financial statement.
7.11	The Government may authorize enterprises to have a foreign currency as functional currency and to present financial statements in foreign currency. But financial statements shall be presented in Kip (see Law on accounting art. 7).

Section 8 Notes to the Financial Statements

Scope of this section

8.1 This section sets out the principles underlying information that is to be presented in the **notes** to the **financial statements** and how to present it. Notes contain information in addition to that presented in the **statement of financial position**, **statement of comprehensive income**, **income statement** of **the consolidated financial statements** if it is presented and **statement of comprehensive income**, **income statement** of **the separate financial**,, **statement of changes in equity**, and **statement of cash flow**. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this section, nearly every other section of this FRS requires disclosures that are normally presented in the notes.

Structure of the notes

8.2 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific **accounting policies** used, in accordance with paragraphs 8.5–8.7;

(b) disclose the information required by this FRS 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.

8.3 An enterprise shall, as far as practicable, present the notes in a systematic manner. An enterprise shall cross-reference each item in the financial statements to any related information in the notes.

8.4 An enterprise normally presents the notes in the following order:

(a) a statement that the financial statements have been prepared in compliance with this FRS (see paragraph 3.3);

(b) a summary of significant accounting policies applied (see paragraph 8.5);

(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

(d) any other disclosures.

Disclosure of accounting policies

8.5 An enterprise shall disclose the following in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements.

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

Information about judgements

8.6 An enterprise shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 8.7), that management has made in the process of applying the enterprise's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Information about key sources of estimation uncertainty

8.7 An enterprise shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature.

(b) their carrying amount as at the end of the reporting period.

Comparison with IFRS for SMEs	
8.1	Non-public interest enterprises never establish a Statement of Income and Retained Earnings. This paragraph distinguishes the consolidated financial statements and the separate financial statement.

Section 9 Consolidated and Separate Financial Statements

Scope of this section

9.1 This section defines the circumstances in which an enterprise applying this FRS presents **consolidated financial statements** and the procedures for preparing those statements in accordance with this FRS. It also includes guidance on **separate financial statements** if they are prepared in accordance with this FRS.

Requirement to present consolidated financial statements

9.2 Except as permitted or required by paragraph 9.3, a **parent** enterprise shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this FRS. Consolidated financial statements shall include all subsidiaries of the parent.

9.3 A parent need not present consolidated financial statements if:

(a) the following conditions are met:

(i) the parent is itself a subsidiary of the parent, and

(') the ultimate parent is Lao, and

(ii) its ultimate parent produces consolidated **general purpose financial statements** that comply with full IFRSs, or with this FRS; or

(b) it has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year. A parent shall account for such a subsidiary:

(i) at fair value with changes in fair value recognised in profit or loss, if the fair value of the shares can be measured reliably, or

(ii) otherwise at cost less impairment (see paragraph 11.14(c)).

9.4 A subsidiary is an enterprise that is controlled by the parent. **Control** is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. If an enterprise has created a **special purpose enterprise** (SPE) to accomplish a narrow and well-defined objective, the enterprise shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that enterprise (see paragraphs 9.10–9.12).

9.5 Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an enterprise. That presumption may be overcome in exceptional circumstances if 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 enterprise but it has:

(a) power over more than half of the voting rights by virtue of an agreement with other investors;

(b) power to govern the financial and operating policies of the enterprise under a

statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the enterprise is by that board or body; or

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the enterprise is by that board or body.

9.6 Control can also be achieved by having options or convertible instruments that are currently exercisable or by having an agent with the ability to direct the activities for the benefit of the controlling enterprise.

9.7 A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation or similar enterprise.

9.8 A subsidiary is not excluded from consolidation because its business activities are dissimilar to those of the other enterprises within the consolidation. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries.

9.9 A subsidiary is not excluded from consolidation because it operates in a **jurisdiction** that imposes restrictions on transferring cash or other assets out of the jurisdiction.

Special purpose enterprises

9.10 An enterprise may be created to accomplish a narrow objective (eg to effect a lease, undertake research and development activities or securitise financial assets). Such an SPE may take the form of a corporation, trust, partnership or unincorporated enterprise. Often, SPEs are created with legal arrangements that impose strict requirements over the operations of the SPE.

9.11 An enterprise shall prepare consolidated financial statements that include the enterprise and any SPEs that are controlled by that enterprise. In addition to the circumstances described in paragraph 9.5, the following circumstances may indicate that an enterprise controls an SPE (this is not an exhaustive list):

(a) the activities of the SPE are being conducted on behalf of the enterprise according to its specific business needs.

(b) the enterprise has the ultimate decision-making powers over the activities of the SPE even if the day-to-day decisions have been delegated.

(c) the enterprise has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE.

(d) the enterprise retains the majority of the residual or ownership risks related to the SPE or its assets.

9.12 Paragraphs 9.10 and 9.11 do not apply to post-employment benefit plans or other long-term employee benefit plans to which Section 28 *Employee Benefits applies*.

Consolidation procedures

9.13 The consolidated financial statements present financial information about the **group** as a single economic enterprise. In preparing consolidated financial statements, an enterprise shall:

(a) combine the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses;

(b) eliminate the **carrying amount** of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;

(c) measure and present **non-controlling interest** in the profit or loss of consolidated subsidiaries for the **reporting period** separately from the interest of the **owners** of the parent; and

(d) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Non-controlling interest in the net assets consists of:

(i) the amount of the non-controlling interest at the date of the original combination calculated in accordance with Section 19 *Business Combinations and Goodwill*, and

(ii) the non-controlling interest's share of changes in equity since the date of the combination.

9.14 The proportions of profit or loss and changes in equity allocated to the owners of the parent and to the non-controlling interest are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of options or convertible instruments.

Intragroup balances and transactions

9.15 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and property, plant and equipment, are eliminated in full. Intragroup losses may indicate an impairment that requires **recognition** in the consolidated financial statements (see Section 27 *Impairment of Assets*). Section 29 *Income Tax* applies to **temporary differences** that arise from the elimination of profits and losses resulting from intragroup transactions.

Uniform reporting date

9.16 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 **reporting date** unless it is **impracticable** to do so.

Uniform accounting policies

9.17 Consolidated financial statements shall be prepared using uniform **accounting policies** for like transactions and other events and conditions in similar circumstances. 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.

Acquisition and disposal of subsidiaries

9.18 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 *Foreign Currency* Translation, is recognised in the consolidated income statement (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary.

9.19 If an enterprise ceases to be a subsidiary but the investor (former parent) continues to hold an investment in the former subsidiary, that investment shall be accounted for as a **financial asset** in accordance with Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments* Issues from the date the enterprise ceases to be a subsidiary, provided that it does not become an **associate** (in which case Section 14 *Investments in Associates* applies) or a **jointly controlled enterprise** (in which case Section 15 *Investments in Joint Ventures* applies). The carrying amount of the investment at the date that the enterprise ceases to be a subsidiary shall be regarded as the cost on initial measurement of the financial asset.

Non-controlling interest in subsidiaries

9.20 An enterprise shall present non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent, as required by paragraph 4.2(q).

9.21 An enterprise shall disclose non-controlling interest in the profit or loss of the group separately in the statement of comprehensive incomeas required by paragraph 5.6 (or in the income statement, if presented, as required by paragraph 5.7).

9.22 Profit or loss and each component of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest. Total comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Disclosures in consolidated financial statements

9.23 The following disclosures shall be made in consolidated financial statements:

(a) the fact that the statements are consolidated financial statements.

(b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power.

(c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements.

(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.

Separate financial statements

Presentation of separate financial statements

9.24 Paragraph 9.2 requires a parent to present consolidated financial statements. This FRS requires presentation of separate financial statements for all the enterprises (enterprises that have or do not have a subsidiary).

Accounting policy election

9.26 The separate financial statements shall comply with all of the requirements of this FRS. The enterprise shall adopt a policy of accounting for its investments in subsidiaries, associates (see Associates defined in Section 14 *Investments in Associates* § 14.2 and 14.3) and jointly controlled enterprises (see Jointly controlled enterprises defined Section 15 *Investments in Joint Ventures* § 15.8) either:

(a) at cost less impairment, or

(b) at **fair value** with changes in fair value recognised in profit or loss.

The enterprise shall apply the same accounting policy for all investments in a single class (subsidiaries, associates or jointly controlled enterprises), but it can elect different policies for different classes.

Disclosures in separate financial statements

9.27 The separate financial statements shall disclose:

(a) that the statements are separate financial statements, and

(b) a description of the methods used to account for the investments in subsidiaries, jointly controlled enterprises and associates,

and shall identify the consolidated financial statements to which they relate.

Comparison with IFRS for SMEs	
9.1 9.28 to 9.30	FRS for LEs does not require **combined financial statements** to be prepared. Paragraphs about the combined financial statements are out of FRS for LEs.
9.3	According to IFRS for SMEs, the ultimate parent can be a foreign parent. According to FRS for LEs, the ultimate parent must be a Lao parent.
9.24 9.27	IFRS for SMEs does not require presentation of separate statements for the parent enterprise and for the subsidiaries. When consolidated financial statements are not presented, the name of the financial statements is only "financial statements" and not "separate financial statements". According to Law on accounting (art.15 and 16), a large enterprise which controls one or several subsidiaries shall establish separate financial statements and consolidated financial statements and the subsidiaries shall establish also separate financial statements. When consolidated financial statements are not presented, the name of the financial statements is "separate financial statements" and not only "financial statements".
9.25	According to IFRS for SMEs, an enterprise that is not a parent but is an investor in an associate or has a venturer's interest in a joint venture presents its financial statements in compliance with Section 14 *Investments in Associates* or Section 15 *Investments in Joint Ventures*, as appropriate. It should also elect to present separate financial statements. According to Law on accounting (art. 15 and 16), all enterprises must establish separate financial statements. Only consolidated financial statements are presented in compliance with Sections 14 and 15. An investor in an associate or in jointly controlled enterprise is not required to produce others financial statements within the meaning of IFRS for SMEs. This paragraph is deleted.

Section 10 Accounting Policies, Estimates and Errors

Scope of this section

10.1 This section provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers **changes in accounting estimates** and corrections of **errors** in prior period financial statements.

Selection and application of accounting policies

10.2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an enterprise in preparing and presenting financial statements.

10.3 If this FRS specifically addresses a transaction, other event or condition, an enterprise shall apply this FRS.

10.4 If this FRS does not specifically address a transaction, other event or condition, an enterprise's management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) **relevant** to the economic decision-making needs of users, and

(b) **reliable**, in that the financial statements:

(i) represent faithfully the **financial position**, **financial performance** and **cash flows** of the enterprise;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, ie free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

10.5 In making the judgement described in paragraph 10.4, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements and guidance in this FRS dealing with similar and related issues, and

(b) the definitions, **recognition** criteria and **measurement** concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

10.6 In making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in **full IFRS** and in **IFRS for SMEs** dealing with similar and related issues.

Consistency of accounting policies

10.7 An enterprise shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this FRS specifically requires or permits categorisation of items for which different policies may be appropriate. If this

FRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

10.8 An enterprise shall change an accounting policy only if the change:

(a) is required by changes to this FRS, or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the enterprise's financial position, financial performance or cash flows.

10.9 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.

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously.

(c) a change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that this FRS would otherwise require or permit to be measured at fair value.

10.10 If this FRS allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an enterprise changes its previous choice that is a change in accounting policy.

Applying changes in accounting policies

10.11 An enterprise shall account for changes in accounting policy as follows:

(a) an enterprise shall account for a change in accounting policy resulting from a change in the requirements of this FRS in accordance with the transitional provisions, if any, specified in that amendment; and

(c) an enterprise shall account for all other changes in accounting policy **retrospectively** (see paragraph 10.12).

Retrospective application

10.12 When a change in accounting policy is applied retrospectively in accordance with paragraph 10.11, the enterprise shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is **impracticable** to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the enterprise 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.

Disclosure of a change in accounting policy

10.13 When an amendment to this FRS has an effect on the current period or any prior period, or might have an effect on future periods, an enterprise shall disclose the following:

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

(b) 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.

(c) the amount of the adjustment relating to periods before those presented, to the extent practicable.

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

10.14 When a voluntary change in accounting policy has an effect on the current period or any prior period, an enterprise shall disclose the following:

(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) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:

(i) for the current period;

(ii) for each prior period presented; and

(iii) in the aggregate for periods before those presented.

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Changes in accounting estimates

10.15 A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. 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.

10.16 An enterprise shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph 10.17 applies, **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.

10.17 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, the enterprise shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Disclosure of a change in estimate

10.18 An enterprise shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the enterprise to estimate the effect of the change in one or more future periods, the enterprise shall disclose those estimates.

Corrections of prior period errors

10.19 Prior period errors are omissions from, and misstatements in, the enterprise's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue, and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

10.20 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

10.21 To the extent practicable, an enterprise shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred, or

(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.

10.22 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the enterprise 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).

Disclosure of prior period errors

10.23 An enterprise shall disclose the following about prior period errors:

(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.

(c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented.

(d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Comparison with IFRS for SMEs	
10.3	Unlike the IFRS for SMEs, the enterprise must follow a requirement in this FRS even if the effect of doing so would not be material.
10.9 (b)	IFRS for SMEs indicates that the following is not a change in accounting policy: the application of a new accounting policy for transactions, other events or conditions that were not material. FRS for LEs consider that this case is a change in accounting policy.
10.11 (b)	IFRS for SMEs allows to elect to follow IAS 39 *Financial Instruments: Recognition and Measurement* instead of following Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* as allowed by paragraph 11.2, and the requirements of IAS 39 change. The enterprise shall account for that change in accounting policy in accordance with the transitional provisions, if any, specified in the revised IAS 39 FRS for LEs does not allow to elect IAS 39. This paragraph is deleted.

Section 11 Basic Financial Instruments

This section considers economic events which still do not exist in Lao PDR but are supposed to appear in the following years.

Scope of Sections 11 and 12

11.1 Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* together deal with recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Section 11 applies to basic financial instruments and is relevant to all enterprises. Section 12 applies to other, more complex financial instruments and transactions. If an enterprise enters into only basic financial instrument transactions, then Section 12 is not applicable. However, even enterprises with only basic financial instruments shall consider the scope of Section 12 to ensure they are exempt.

Introduction to Section 11

11.3 A financial instrument is a contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

11.4 Section 11 requires an amortised cost model for all basic financial instruments except for investments in non-convertible and non-puttable preference shares and non-puttable ordinary shares that are **publicly traded** or whose **fair value** can otherwise be measured reliably.

11.5 Basic financial instruments within the scope of Section 11 are those that satisfy the conditions in paragraph 11.8. Examples of financial instruments that normally satisfy those conditions include:

(a) cash.

(b) demand and fixed-term deposits when the enterprise is the depositor, eg bank accounts.

(c) commercial paper and commercial bills held.

(d) accounts, notes and loans receivable and payable.

(e) bonds and similar debt instruments.

(f) investments in non-convertible preference shares and non-puttable ordinary and preference shares.

(g) commitments to receive a loan if the commitment cannot be net settled in cash.

11.6 Examples of financial instruments that do not normally satisfy the conditions in paragraph 11.8, and are therefore within the scope of Section 12, include:

(a) asset-backed securities, such as collateralised mortgage obligations, repurchase agreements and securitised packages of receivables.

(b) options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging another financial instrument.

(c) financial instruments that qualify and are designated as hedging instruments in accordance with the requirements in Section 12.

(d) commitments to make a loan to another enterprise.

(e) commitments to receive a loan if the commitment can be net settled in cash.

Scope of Section 11

11.7 Section 11 applies to all financial instruments meeting the conditions of paragraph 11.8 except for the following:

(a) investments in **subsidiaries**, **associates** and **joint ventures** that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 *Investments in Joint Ventures*.

(b) financial instruments that meet the definition of an enterprise's own equity (see Section 22 *Liabilities and Equity* and Section 26 *Share-based Payment*).

(c) leases, to which Section 20 *Leases* applies. However, the derecognition requirements in paragraphs 11.33–11.38 apply to derecognition of lease receivables recognised by a lessor and lease payables recognised by a lessee. Also, Section 12 may apply to leases with characteristics specified in paragraph 12.3(f).

(d) employers' rights and obligations under employee benefit plans, to which Section 28 *Employee Benefits* applies.

Basic financial instruments

11.8 An enterprise shall account for the following financial instruments as basic financial instruments in accordance with Section 11:

(a) cash.

(b) a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in paragraph 11.9.

(c) a commitment to receive a loan that:

(i) cannot be settled net in cash, and

(ii) when the commitment is executed, is expected to meet the conditions in paragraph 11.9.

(d) an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares.

11.9 A debt instrument that satisfies all of the conditions in (a)–(d) below shall be accounted for in accordance with Section 11:

(a) Returns to the holder are

(i) a fixed amount;

(ii) a fixed rate of return over the life of the instrument;

(iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR); or

(iv) some combination of such fixed rate and variable rates (such as LIBOR plus 200 basis points), provided that both the fixed and variable rates are positive (eg an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion). For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.

(c) Contractual provisions that permit the issuer (the debtor) to prepay a debt instrument or permit the holder (the creditor) to put it back to the issuer before maturity are not contingent on future events.

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

11.10 Examples of financial instruments that would normally satisfy the conditions in paragraph 11.9 are:

(a) trade accounts and notes receivable and payable, and loans from banks or other third parties.

(b) accounts payable in a foreign currency. However, any change in the account payable because of a change in the exchange rate is recognised in profit or loss as required by paragraph 30.10.

(c) loans to or from subsidiaries or associates that are due on demand.

(d) a debt instrument that would become immediately receivable if the issuer defaults on an interest or principal payment (such a provision does not violate the conditions in paragraph 11.9).

11.11 Examples of financial instruments that do not satisfy the conditions in paragraph 11.9 (and are therefore within the scope of Section 12) include:

(a) an investment in another enterprise's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares (see paragraph 11.8(d)).

(b) an interest rate swap that returns a cash flow that is positive or negative, or a forward commitment to purchase a commodity or financial instrument that is

capable of being cash-settled and that, on settlement, could have positive or negative cash flow, because such swaps and forwards do not meet the condition in paragraph 11.9(a).

(c) options and forward contracts, because returns to the holder are not fixed and the condition in paragraph 11.9(a) is not met.

(d) investments in convertible debt, because the return to the holder can vary with the price of the issuer's equity shares rather than just with market interest rates.

(e) a loan receivable from a third party that gives the third party the right or obligation to prepay if the applicable taxation or accounting requirements change, because such a loan does not meet the condition in paragraph 11.9(c).

Initial recognition of financial assets and liabilities

11.12 An enterprise shall recognise a financial asset or a financial liability only when the enterprise becomes a party to the contractual provisions of the instrument.

Initial measurement

11.13 When a financial asset or financial liability is recognised initially, an enterprise shall measure it at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, the enterprise shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Examples – financial assets

1 For a long-term loan made to another enterprise, a receivable is recognised at the present value of cash receivable (including interest payments and repayment of principal) from that enterprise.

2 For goods sold to a customer on short-term credit, a receivable is recognised at the undiscounted amount of cash receivable from that enterprise, which is normally the invoice price.

3 For an item sold to a customer on two-year interest-free credit, a receivable is recognised at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.

4 For a cash purchase of another enterprise's ordinary shares, the investment is recognised at the amount of cash paid to acquire the shares.

Examples – financial liabilities

1 For a loan received from a bank, a payable is recognised initially at the present value of cash payable to the bank (eg including interest payments and repayment of principal).

2 For goods purchased from a supplier on short-term credit, a payable is recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.

Subsequent measurement

11.14 At the end of each **reporting period**, an enterprise shall measure financial instruments as follows, without any deduction for transaction costs the enterprise may incur on sale or other disposal:

(a) Debt instruments that meet the conditions in paragraph 11.8(b) shall be measured at amortised cost using the effective interest method. Paragraphs 11.15–11.20 provide guidance on determining **amortised cost** using the **effective interest method**. Debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment—see paragraphs 11.21–11.26) unless the arrangement constitutes, in effect, a financing transaction (see paragraph 11.13). If the arrangement constitutes a financing transaction, the enterprise shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

(b) Commitments to receive a loan that meet the conditions in paragraph 11.8(c) shall be measured at cost (which sometimes is nil) less impairment.

(c) Investments in non-convertible preference shares and non-puttable ordinary or preference shares that meet the conditions in paragraph 11.8(d) shall be measured as follows (paragraphs 11.27–11.33 provide guidance on fair value):

(i) if the shares are publicly traded or their fair value can otherwise be measured reliably, the investment shall be measured at fair value with changes in fair value recognised in profit or loss.

(ii) all other such investments shall be measured at cost less impairment.

Impairment or uncollectibility must be assessed for financial instruments in (a), (b) and (c)(ii) above. Paragraphs 11.21–11.26 provide guidance.

Amortised cost and effective interest method

11.15 The amortised cost of a financial asset or financial liability at each reporting date is the net of the following amounts:

(a) the amount at which the financial asset or financial liability is measured at initial recognition,

(b) minus any repayments of the principal,

(c) plus or minus the cumulative amortisation using the effective interest method of any difference between the amount at initial recognition and the maturity amount,

(d) minus, in the case of a financial asset, any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Financial assets and financial liabilities that have no stated interest rate and are classified as current assets or current liabilities are initially measured at an undiscounted amount in accordance with paragraph 11.14(a). Therefore, (c) above does not apply to them.

11.16 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is 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 carrying amount of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. Under the effective interest method:

(a) the amortised cost of a financial asset (liability) is the present value of future cash receipts (payments) discounted at the effective interest rate, and

(b) the interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the effective interest rate for the period.

11.17 When calculating the effective interest rate, an enterprise shall estimate cash flows considering all contractual terms of the financial instrument (eg prepayment, call and similar options) and known credit losses that have been incurred, but it shall not consider possible future credit losses not yet incurred.

11.18 When calculating the effective interest rate, an enterprise shall amortise any related fees, finance charges paid or received (such as "points"), transaction costs and other premiums or discounts over the expected life of the instrument, except as follows. The enterprise shall use a shorter period if that is the period to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date.

11.19 For variable rate financial assets and variable rate financial liabilities, periodic re-estimation of cash flows to reflect changes in market rates of interest alters the effective interest rate. If a variable rate financial asset or variable rate financial liability is recognised initially at an amount equal to the principal receivable or payable at maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

11.20 If an enterprise revises its estimates of payments or receipts, the enterprise shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The enterprise shall recalculate the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The enterprise shall recognise the adjustment as income or expense in profit or loss at the date of the revision.

Example of determining amortised cost for a five-year loan using the effective interest method

On 1 January 20X0, an enterprise acquires a bond for Kilo Kip (KKip)900, incurring transaction costs of KKip50. Interest of KKip40 is receivable annually, in arrears, over the next five years (31 December 20X0–31 December 20X4). The bond has a mandatory redemption of KKip1,100 on 31 December 20X4.

Year	Carrying amount at beginning of period	Interest income at 6.9583%*	Cash inflow	Carrying amount at end of period
	KKip	KKip	KKip	KKip
20X0	950.00	66.10	(40.00)	976.11
20X1	976.11	67.92	(40.00)	1,004.03
20X2	1,004.03	69.86	(40.00)	1,033.89
20X3	1,033.89	71.94	(40.00)	1,065.83
20X4	1,065.83	74.16	(40.00)	1,100.00
			(1,100.00)	0

* The effective interest rate of 6.9583 per cent is the rate that discounts the expected cash flows on the bond to the initial carrying amount:

$$40/(1.069583)^1 + 40/(1.069583)^2 + 40/(1.069583)^3 + 40/(1.069583)^4 + 1{,}140/(1.069583)^5 = 950$$

Impairment of financial instruments measured at cost or amortised cost

Recognition

11.21 At the end of each **reporting period**, an enterprise shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the enterprise shall recognise an **impairment loss** in profit or loss immediately.

11.22 Objective evidence that a financial asset or group of assets is impaired includes observable data that come 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 creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider.

(d) it has become **probable** that the debtor will enter bankruptcy or other financial reorganisation.

(e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

11.23 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

11.24 An enterprise shall assess the following financial assets individually for impairment:

(a) all equity instruments regardless of significance, and

(b) other financial assets that are individually significant.

An enterprise shall assess other financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.

Measurement

11.25 An enterprise shall measure an impairment loss on the following instruments measured at cost or amortised cost as follows:

(a) for an instrument measured at amortised cost in accordance with paragraph 11.14(a), the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

(b) for an instrument measured at cost less impairment in accordance with paragraph 11.14(b) and (c)(ii) the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the enterprise would receive for the asset if it were to be sold at the reporting date.

Reversal

11.26 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the enterprise shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account in **consolidated financial statements** and by adjusting an allowance account in **separate financial statements**. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognised. The enterprise shall recognise the amount of the reversal in profit or loss immediately.

Fair value

11.27 Paragraph 11.14(c) (i) requires an investment in ordinary shares or preference shares to be measured at fair value if the fair value of the shares can be measured reliably. An enterprise shall use the following hierarchy to estimate the fair value of the shares:

(a) The best evidence of fair value is a quoted price for an identical asset in an active market. This is usually the current bid price.

(b) When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the enterprise can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an enterprise would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

(c) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an enterprise estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Other sections of this FRS make reference to the fair value guidance in paragraphs 11.27–11.32, including Section 12 *Other Financial Instruments issues*, Section 14 *Investments in Associates*, Section 15 *Investments in Joint Ventures* and Section 16 *Investment Property*. In applying that guidance to assets covered by those sections, the reference to ordinary shares or preference shares in this paragraph should be read to include the types of assets covered by those sections.

Valuation technique

11.28 Valuation techniques include using recent arm's length market transactions for an identical asset between knowledgeable, willing parties, if available, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the enterprise uses that technique.

11.29 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. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on enterprise-determined inputs. A valuation technique would be expected to arrive at a reliable estimate of the fair value if

(a) it reasonably reflects how the market could be expected to price the asset, and

(b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

No active market: equity instruments

11.30 The fair value of investments in assets that do not have a quoted market price in an active market 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.

11.31 There are many situations in which the variability in the range of reasonable fair value estimates of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an enterprise has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an enterprise is precluded from measuring the asset at fair value.

11.32 If a reliable measure of fair value is no longer available for an asset measured at fair value (eg an equity instrument measured at fair value through profit or loss), its carrying amount at the last date the asset was reliably measurable becomes its new cost. The enterprise shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available.

Derecognition of a financial asset

11.33 An enterprise shall derecognise a financial asset only when:

(a) the contractual rights to the cash flows from the financial asset expire or are settled, or

(b) the enterprise transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or

(c) the enterprise, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the enterprise shall:

(i) derecognise the asset, and

(ii) recognise separately any rights and obligations retained or created in the transfer.

The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in profit or loss in the period of the transfer.

11.34 If a transfer does not result in derecognition because the enterprise has retained significant risks and rewards of ownership of the transferred asset, the enterprise shall

continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the enterprise shall recognise any income on the transferred asset and any expense incurred on the financial liability.

11.35 If a transferor provides non-cash collateral (such as debt or equity instruments) 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, the transferor shall reclassify that asset in its statement of financial position (eg as a loaned asset, pledged equity instruments or repurchase receivable) 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.

Example – transfer that qualifies for derecognition

An enterprise sells a group of its accounts receivable to a bank at less than their face amount. The enterprise continues to handle collections from the debtors on behalf of the bank, including sending monthly statements, and the bank pays the enterprise a market-rate fee for servicing the receivables. The enterprise is obliged to remit promptly to the bank any and all amounts collected, but it has no obligation to the bank for slow payment or non-payment by the debtors. In this case, the enterprise has transferred to the bank substantially all of the risks and rewards of ownership of the receivables. Accordingly, it removes the receivables from its statement of financial position (ie derecognises them), and it shows no liability in respect of the proceeds received from the bank. The enterprise recognises a loss calculated as the difference between the carrying amount of the receivables at the time of sale and the proceeds received from the bank. The enterprise recognises a liability to the extent that it has collected funds from the debtors but has not yet remitted them to the bank.

Example – transfer that does not qualify for derecognition

The facts are the same as the preceding example except that the enterprise has agreed to buy back from the bank any receivables for which the debtor is in arrears as to

principal or interest for more than 120 days. In this case, the enterprise has retained the risk of slow payment or non-payment by the debtors—a significant risk with respect to receivables. Accordingly, the enterprise does not treat the receivables as having been sold to the bank, and it does not derecognise them. Instead, it treats the proceeds from the bank as a loan secured by the receivables. The enterprise continues to recognise the receivables as an asset until they are collected or written off as uncollectible.

Derecognition of a financial liability

11.36 An enterprise shall derecognise a financial liability (or a part of a financial liability) only when it is extinguished—ie when the obligation specified in the contract is discharged, is cancelled or expires.

11.37 If an existing borrower and lender exchange financial instruments with substantially different terms, the enterprises shall account for the transaction as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, an enterprise shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.

11.38 The enterprise shall recognise in profit or loss any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Disclosures

11.39 The disclosures below make reference to disclosures for financial liabilities measured at fair value through profit or loss. Enterprises that have only basic financial instruments (and therefore do not apply Section 12) will not have any financial liabilities measured at fair value through profit or loss and hence will not need to provide such disclosures.

Disclosure of accounting policies for financial instruments

11.40 In accordance with paragraph 8.5, an enterprise shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

Statement of financial position – Categories of financial assets and financial liabilities

11.41 An enterprise shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, in the notes:

(a) financial assets measured at fair value through profit or loss (paragraph 11.14(c)(i)

and paragraphs 12.8 and 12.9).

(b) financial assets that are debt instruments measured at amortised cost (paragraph 11.14(a)).

(c) financial assets that are equity instruments measured at cost less impairment (paragraph 11.14(c)(ii) and paragraphs 12.8 and 12.9).

(d) financial liabilities measured at fair value through profit or loss (paragraphs 12.8 and 12.9).

(e) financial liabilities measured at amortised cost (paragraph 11.14(a)).

(f) loan commitments measured at cost less impairment (paragraph 11.14(b)).

11.42 An enterprise shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the enterprise).

11.43 For all financial assets and financial liabilities measured at fair value, the enterprise shall disclose the basis for determining fair value, eg quoted market price in an active market or a valuation technique. When a valuation technique is used, the enterprise shall disclose the assumptions applied in determining fair value for each class of financial assets or financial liabilities. For example, if applicable, an enterprise discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

11.44 If a reliable measure of fair value is no longer available for an equity instrument measured at fair value through profit or loss, the enterprise shall disclose that fact.

Derecognition

11.45 If an enterprise has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.33–11.35), the enterprise shall disclose the following 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 enterprise remains exposed.

(c) the carrying amounts of the assets and of any associated liabilities that the enterprise continues to recognise.

Collateral

11.46 When an enterprise has pledged financial assets as collateral for liabilities or contingent liabilities, it shall disclose the following:

(a) the carrying amount of the financial assets pledged as collateral.

(b) the terms and conditions relating to its pledge.

Defaults and breaches on loans payable

11.47 For loans payable recognised at the reporting date for which there is a breach of terms or default of principal, interest, sinking fund, or redemption terms that has not been remedied by the reporting date, an enterprise shall disclose the following:

(a) details of that breach or default.

(b) the carrying amount of the related loans payable at the reporting date.

(c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

Items of income, expense, gains or losses

11.48 An enterprise shall disclose the following items of income, expense, gains or losses:

(a) income, expense, gains or losses, including changes in fair value, recognised on:

(i) financial assets measured at fair value through profit or loss.

(ii) financial liabilities measured at fair value through profit or loss.

(iii) financial assets measured at amortised cost.

(iv) financial liabilities measured at amortised cost.

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss.

(c) the amount of any impairment loss for each class of financial asset.

Comparison with IFRS for SMEs	
11.2	IFRS for SMEs alows to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* instead of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. FRS for LEs does not allow. An enterprise must apply only the provisions of both Section 11 and Section 12 in full. This paragraph is deleted.
11.26	Additional explanation on reversal was inserted to be understood that is applicable for consolidated and separate financial statements. This paragraph is modified.
11.41	IFRS for SMEs permits that the carrying amounts of each of these categories of financial assets and financial liabilities, at the reporting date, are disclosed either in the statement of financial position or in the notes. FRS for LEs requires to disclosure them in the notes.

Section 12 Other Financial Instruments Issues

This section considers economic events which still do not exist in Lao PDR but are supposed to appear in the following years.

Scope of Sections 11 and 12

12.1 Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* together deal with recognising, derecognising, measuring, and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Section 11 applies to basic financial instruments and is relevant to all enterprises. Section 12 applies to other, more complex financial instruments and transactions. If an enterprise enters into only basic financial instrument transactions then Section 12 is not applicable. However, even enterprises with only basic financial instruments shall consider the scope of Section 12 to ensure they are exempt.

Scope of Section 12

12.3 Section 12 applies to all financial instruments except the following:

(a) those covered by Section 11.

(b) interests in subsidiaries (see Section 9 *Consolidated and Separate Financial Statements*), associates (see Section 14 *Investments in Associates*) and joint ventures (see Section 15 *Investments in Joint Ventures*).

(c) employers' rights and obligations under employee benefit plans (see Section 28 *Employee Benefits*).

(d) rights under insurance contracts unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to:

(i) changes in the insured risk;

(ii) changes in foreign exchange rates; or (iii) a default by one of the counterparties.

(iii) a default by one of the counterparties.

(e) financial instruments that meet the definition of an enterprise's own equity (see Section 22 *Equity* and Section 26 *Share-based Payment*).

(f) leases (see Section 20 *Leases*) unless the lease could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:

(i) changes in the price of the leased asset;

(ii) changes in foreign exchange rates; or

(iii) a default by one of the counterparties.

(g) contracts for contingent consideration in a business combination (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.

12.4 Most contracts to buy or sell a non-financial item such as a commodity, inventory, or property, plant and equipment are excluded from this section because they are not financial instruments. However, this section applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell tangible assets. For example, this section applies to contracts that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties.

12.5 In addition to the contracts described in paragraph 12.4, this section applies to contracts to buy or sell non-financial items if the contract can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the following exception: 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 enterprise's expected purchase, sale or usage requirements are not financial instruments for the purposes of this section.

Initial recognition of financial assets and liabilities

12.6 An enterprise shall recognise a financial asset or a financial liability only when the enterprise becomes a party to the contractual provisions of the instrument.

Initial measurement

12.7 When a financial asset or financial liability is recognised initially, an enterprise shall measure it at its fair value, which is normally the transaction price.

Subsequent measurement

12.8 At the end of each **reporting period**, an enterprise shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in profit or loss, except as follows: equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably, and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.

12.9 If a reliable measure of fair value is no longer available for an equity instrument that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date the instrument was reliably measurable is treated as the cost of the instrument. The enterprise shall measure the instrument at this cost amount less impairment until a reliable measure of fair value becomes available.

Fair value

12.10 An enterprise shall apply the guidance on fair value in paragraphs 11.27–11.32 to fair value measurements in accordance with this section as well as for fair value measurements in accordance with Section 11.

12.11 The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

12.12 An enterprise shall not include transaction costs in the initial measurement of financial assets and liabilities that will be measured subsequently at fair value through profit or loss. If payment for an asset is deferred or is financed at a rate of interest that is not a market rate, the enterprise shall initially measure the asset at the present value of the future payments discounted at a market rate of interest.

Impairment of financial instruments measured at cost or amortised cost

12.13 An enterprise shall apply the guidance on impairment of a financial instrument measured at cost in paragraphs 11.21–11.26 to financial instruments measured at cost less impairment in accordance with this section.

Derecognition of a financial asset or financial liability

12.14 An enterprise shall apply the derecognition requirements in paragraphs 11.33–11.38 to financial assets and financial liabilities to which this section applies.

Hedge accounting

12.15 If specified criteria are met, an enterprise may designate a hedging relationship between a **hedging instrument** and a **hedged item** in such a way as to qualify for hedge accounting. Hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time.

12.16 To qualify for hedge accounting, an enterprise shall comply with all of the following conditions:

(a) the enterprise designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.

(b) the hedged risk is one of the risks specified in paragraph 12.17.

(c) the hedging instrument is as specified in paragraph 12.18.

(d) the enterprise expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The **effectiveness of a hedge** is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

12.17 This FRS permits hedge accounting only for the following risks:

(a) interest rate risk of a debt instrument measured at amortised cost.

(b) foreign exchange or interest rate risk in a firm commitment or a **highly probable forecast transaction**.

(c) price risk of a commodity that it holds or in a firm commitment or highly

probable forecast transaction to purchase or sell a commodity.

(d) foreign exchange risk in a net investment in a foreign operation.

Foreign exchange risk of a debt instrument measured at amortised cost is not in the list above because hedge accounting would not have any significant effect on the financial statements. Basic accounts, notes and loans receivable and payable are normally measured at amortised cost (see paragraph 11.5(d)). This would include payables denominated in a foreign currency. Paragraph 30.10 requires any change in the carrying amount of the payable because of a change in the exchange rate to be recognised in profit or loss. Therefore, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognised in profit or loss and should offset each other except to the extent of the difference between the spot rate (at which the liability is measured) and the forward rate (at which the swap is measured).

12.18 This FRS permits hedge accounting only if the hedging instrument has all of following terms and conditions:

(a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 12.17 that is designated as the hedged risk.

(b) it involves a party external to the reporting enterprise (ie external to the **group**, segment or individual enterprise being reported on).

(c) its **notional amount** is equal to the designated amount of the principal or notional amount of the hedged item.

(d) it has a specified maturity date not later than

(i) the maturity of the financial instrument being hedged,

(ii) the expected settlement of the commodity purchase or sale commitment, or

(iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.

(e) it has no prepayment, early termination or extension features.

Hedge of fixed interest rate risk of a recognised financial instrument or commodity price risk of a commodity held

12.19 If the conditions in paragraph 12.16 are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the enterprise shall:

(a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss, and

(b) recognise the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged

item.

12.20 If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the enterprise shall recognise the periodic net cash settlements on the interest rate swap that is the hedging instrument in profit or loss in the period in which the net settlements accrue.

12.21 The enterprise shall discontinue the hedge accounting specified in paragraph 12.19 if:

(a) the hedging instrument expires or is sold or terminated;

(b) the hedge no longer meets the conditions for hedge accounting specified in paragraph 12.16; or

(c) the enterprise revokes the designation.

12.22 If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost that has not been derecognised, any gains or losses recognised as adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged instrument.

Hedge of variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation

12.23 If the conditions in paragraph 12.16 are met and the hedged risk is

(a) the variable interest rate risk in a debt instrument measured at amortised cost,

(b) the foreign exchange risk in a **firm commitment** or a highly probable forecast transaction,

(c) the commodity price risk in a firm commitment or highly probable forecast transaction, or

(d) the foreign exchange risk in a net investment in a foreign operation,

the enterprise shall recognise in other comprehensive income the portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. The enterprise shall recognise in profit or loss any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows (sometimes called hedge ineffectiveness). The hedging gain or loss recognised in other comprehensive income shall be reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends.

12.24 If the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the enterprise shall subsequently recognise in profit or loss the periodic net cash settlements from the interest rate swap that is the hedging instrument in the period in which the net settlements accrue.

12.25 The enterprise shall discontinue the hedge accounting specified in paragraph 12.23 if:

(a) the hedging instrument expires or is sold or terminated;

(b) the hedge no longer meets the criteria for hedge accounting in paragraph 12.16;

(c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or

(d) the enterprise revokes the designation.

If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in other comprehensive income shall be reclassified from other comprehensive income to profit or loss.

Disclosures

12.26 An enterprise applying this section shall make all of the disclosures required in Section 11 incorporating in those disclosures financial instruments that are within the scope of this section as well as those within the scope of Section 11. In addition, if the enterprise uses hedge accounting, it shall make the additional disclosures in paragraphs 12.27–12.29.

12.27 An enterprise shall disclose the following separately for hedges of each of the four types of risks described in paragraph 12.17:

(a) a description of the hedge.

(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date.

(c) the nature of the risks being hedged, including a description of the hedged item.

12.28 If an enterprise uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 12.19–12.22) it shall disclose the following:

(a) the amount of the change in fair value of the hedging instrument recognised in profit or loss.

(b) the amount of the change in fair value of the hedged item recognised in profit or loss.

12.29 If an enterprise uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (paragraphs 12.23–12.25) it shall disclose the following:

(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 of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 12.23).

(d) the amount that was reclassified from other comprehensive income to profit or loss for the period (paragraphs 12.23 and 12.25).

(e) the amount of any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was recognised in profit or loss (paragraph 12.24).

Comparison with IFRS for SMEs	
12.2	IFRS for SMEs permits to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* instead of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. FRS for LEs does not permit. An enterprise must apply only the provisions of both Section 11 and Section 12 in full. This paragraph is deleted.

Section 13 Inventories

Scope of this section

13.1 This section sets out the principles for recognising and measuring **inventories**. Inventories are **assets**:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

13.2 This section applies to all inventories, except:

(a) work in progress arising under construction contracts, including directly related service contracts (see Section 23 *Revenue*).

(b) financial instruments (see Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*).

(c) **biological assets** related to agricultural activity and **agricultural produce** at the point of harvest (see Section 34 *Specialised Activities*).

13.3 This section does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at **fair value** less costs to sell through profit or loss, or

(b) commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit or loss.

Measurement of inventories

13.4 An enterprise shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.

Cost of inventories

13.5 An enterprise shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

13.6 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), 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.

13.7 An enterprise may purchase inventories on deferred settlement terms. In some cases,

the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest expense over the period of the financing and is not added to the cost of the inventories.

Costs of conversion

13.8 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 overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

Allocation of production overheads

13.9 An enterprise shall allocate fixed production overheads to the costs of conversion on the basis of 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. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Joint products and by-products

13.10 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an enterprise shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the enterprise shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the **carrying amount** of the main product is not materially different from its cost.

Other costs included in inventories

13.11 An enterprise shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

13.12 Paragraph 12.19(b) provides that, in some circumstances, the change in the fair value of the hedging instrument in a hedge of fixed interest rate risk or commodity price risk of a commodity held adjusts the carrying amount of the commodity.

Costs excluded from inventories

13.13 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour or other production costs.

(b) storage costs, unless those costs are necessary during the production process before a further production stage.

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition.

(d) selling costs.

Cost of inventories of a service provider

13.14 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, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

13.15 Section 34 requires that inventories comprising agricultural produce that an enterprise has harvested from its biological assets should be measured on initial **recognition** at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

13.16 An enterprise may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates 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 measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

13.17 An enterprise shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

13.18 An enterprise shall measure the cost of inventories, other than those dealt with in paragraph 13.17, by using the first-in, first-out (FIFO) or weighted average cost formula. An enterprise shall use the same cost formula for all inventories having a similar nature and use to the enterprise. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by this FRS.

Impairment of inventories

13.19 Paragraphs 27.2–27.4 require an enterprise to assess at the end of each **reporting period** whether any inventories are impaired, ie the carrying amount is not fully recoverable (eg because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the enterprise to measure the inventory at its selling price less costs to complete and sell, and to recognise an **impairment loss**. Those paragraphs also require a reversal of a prior impairment in some circumstances.

Recognition as an expense

13.20 When inventories are sold, the enterprise shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.

13.21 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of this FRS relevant to that type of asset.

Disclosures

13.22 An enterprise shall disclose the following:

(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 enterprise.

(c) the amount of inventories recognised as an expense during the period.

(d) impairment losses recognised or reversed in profit or loss in accordance with Section 27 *Impairment Assets*.

(e) the total carrying amount of inventories pledged as security for liabilities.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 14 Investments in Associates

Scope of this section

14.1 This section applies to accounting for **associates** in **consolidated financial statements**. Paragraph 9.26 establishes the requirements for accounting for associates in **separate financial statements**.

Associates defined

14.2 An associate is an enterprise over which the investor has significant influence and that is neither a **subsidiary** nor an interest in a **joint venture**.

14.3 Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not **control** or **joint control** over those policies.

(a) If an investor holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the associate, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

(b) Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the associate, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

(c) A substantial or majority ownership by another investor does not preclude an investor from having significant influence.

Measurement - accounting policy election

14.4 An investor shall account for all of its investments in associates using one of the following:

(a) the cost model in paragraph 14.5.

(b) the equity method in paragraph 14.8.

(c) the fair value model in paragraph 14.9.

Cost model

14.5 An investor shall measure its investments in associates, other than those for which there is a published price quotation (see paragraph 14.7) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of Assets*.

14.6 The investor shall recognise dividends and other distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.

14.7 An investor shall measure its investments in associates for which there is a published price quotation using the fair value model (see paragraph 14.9).

Equity method

14.8 Under the equity method of accounting, an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the **profit or loss** and **other comprehensive income** of the associate.

(a) *Distributions and other adjustments to carrying amount.* Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be required as a consequence of changes in the associate's equity arising from items of other comprehensive income.

(b) *Potential voting rights.* Although potential voting rights are considered in deciding whether significant influence exists, an investor shall measure its share of profit or loss of the associate and its share of changes in the associate's equity on the basis of present ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.

(c) *Implicit goodwill and fair value adjustments.* On acquisition of the investment in an associate, an investor shall account for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate in accordance with paragraphs 19.22–19.24. An investor shall adjust its share of the associate's profits or losses after acquisition to account for additional depreciation or amortisation of the associate's depreciable or amortisable assets (including goodwill) on the basis of the excess of their fair values over their carrying amounts at the time the investment was acquired.

(d) *Impairment.* If there is an indication that an investment in an associate may be impaired, an investor shall test the entire carrying amount of the investment for impairment in accordance with Section 27 as a single asset. Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, rather, as part of the test for impairment of the investment as a whole.

(e) *Investor's transactions with associates.* If an associate is accounted for using the equity method, the investor shall eliminate unrealised profits and losses resulting from upstream (associate to investor) and downstream (investor to associate) transactions to the extent of the investor's interest in the associate. Unrealised losses on such transactions may provide evidence of an impairment of the asset transferred.

(f) *Date of associate's financial statements.* In applying the equity method, the investor shall use the financial statements of the associate as of the same date as the financial statements of the investor unless it is impracticable to do so. If it is **impracticable**, the investor shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends.

(g) *Associate's accounting policies.* If the associate uses accounting policies that differ from those of the investor, the investor shall adjust the associate's financial

statements to reflect the investor's accounting policies for the purpose of applying the equity method unless it is impracticable to do so.

(h) *Losses in excess of investment.* If an investor's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate, the investor shall discontinue recognising its share of further losses. After the investor's interest is reduced to zero, the investor shall recognise additional losses by a provision (see Section 21 *Provisions and Contingencies*) only to the extent that the investor has incurred legal or constructive obligations or has made payments on behalf of the associate. If the associate subsequently reports profits, the investor shall resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(i) Discontinuing the equity method. An investor shall cease using the equity method from the date that significant influence ceases.

(i) If the associate becomes a subsidiary or joint venture, the investor shall remeasure its previously held equity interest to fair value and recognise the resulting gain or loss, if any, in profit or loss.

(ii) If an investor loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in profit or loss the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate at the date significant influence is lost. Thereafter, the investor shall account for any retained interest using Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*, as appropriate.

(iii) If an investor loses significant influence for reasons other than a partial disposal of its investment, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Sections 11 and 12, as appropriate.

Fair value model

14.9 When an investment in an associate is recognised initially, an investor shall measure it at the transaction price. Transaction price excludes transaction costs.

14.10 At each **reporting date**, an investor shall measure its investments in associates at fair value, with changes in fair value recognised in profit or loss, using the fair valuation guidance in paragraphs 11.27–11.32. An investor using the fair value model shall use the cost model for any investment in an associate for which it is impracticable to measure fair value reliably without undue cost or effort.

Financial statement presentation

14.11 An investor shall classify investments in associates as non-current assets.

Disclosures

14.12 An investor in an associate shall disclose the following:

(a) its **accounting policy** for investments in associates.

(b) the **carrying amount** of investments in associates (see paragraph 4.2(j)).

(c) the fair value of investments in associates accounted for using the equity method for which there are published price quotations.

14.13 For investments in associates accounted for by the cost model, an investor shall disclose the amount of dividends and other distributions recognised as income.

14.14 For investments in associates accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such associates and its share of any **discontinued operations** of such associates.

14.15 For investments in associates accounted for by the fair value model, an investor shall make the disclosures required by paragraphs 11.41–11.44.

Comparison with IFRS for SMEs	
14.1	According to IFRS for SMEs, an investor in an associate that is not a parent but that has an investment in one or more associates presents its financial statements in compliance with Section 14 *Investments in Associates*. It should also elect to present separate financial statements (see § 9.25). According to Law on accounting (art.15 and 16), all enterprises must establish separate financial statements. Only consolidated financial statements are presented in compliance with Sections 14. Paragraph 9.26 establishes the requirements for accounting for associates in separate financial statements. An investor in an associate is not required to produce other financial statements within the meaning of IFRS for SMEs.
14.2	The Lao companies are never without share capital. The paragraph is modified.

Section 15 Investments in Joint Ventures

Scope of this section

15.1 This section applies to accounting for **joint ventures** in **consolidated financial statements.** It applies to accounting for **jointly controlled operations** and **jointly controlled assets** in the **separate financial statements** of an investor that has a **venturer**'s interest in one or more joint ventures. Paragraph 9.26 establishes the requirements for accounting for a venturer's interest in a **jointly controlled enterprise** in **separate financial statements**.

Joint ventures defined

15.2 **Joint control** is the contractually agreed sharing of **control** over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

15.3 A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled enterprises.

Jointly controlled operations

15.4 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 enterprise, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment 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 activities may be carried out by the venturer's employees alongside the venturer's similar activities. 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.

15.5 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.

Jointly controlled assets

15.6 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.

15.7 In respect of its interest in a jointly controlled asset, 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.

Jointly controlled enterprises (consolidated financial statements)

15.8 A jointly controlled enterprise is a joint venture that involves the establishment of a corporation, partnership or other enterprise in which each venturer has an interest. The enterprise operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the enterprise.

Measurement - accounting policy election

15.9 A venturer shall account for all of its interests in jointly controlled enterprises using one of the following:

(a) the cost model in paragraph 15.10.

(b) the equity method in paragraph 15.13.

(c) the fair value model in paragraph 15.14.

Cost model

15.10 A venturer shall measure its investments in jointly controlled enterprises, other than those for which there is a published price quotation (see paragraph 15.12) at cost less any accumulated impairment losses recognised in accordance with Section 27 *Impairment of Assets*.

15.11 The investor shall recognise distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the jointly controlled enterprise arising before or after the date of acquisition.

15.12 A venturer shall measure its investments in jointly controlled enterprises for which there is a published price quotation using the fair value model (see paragraph 15.14).

Equity method

15.13 A venturer shall measure its investments in jointly controlled enterprises by the equity method using the procedures in paragraph 14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

Fair value model

15.14 When an investment in a jointly controlled enterprise is recognised initially, a venturer shall measure it at transaction price. Transaction price excludes transaction costs.

15.15 At each **reporting date**, a venturer shall measure its investments in jointly controlled

enterprises at fair value, with changes in fair value recognised in profit or loss, using the fair valuation guidance in paragraphs 11.27–11.32. A venturer using the fair value model shall use the cost model for any investment in a jointly controlled enterprise for which it is impracticable to measure fair value reliably without undue cost or effort.

Transactions between a venturer and a joint venture

15.16 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 an impairment loss.

15.17 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 an **impairment loss**.

If investor does not have joint control

15.18 An investor in a joint venture that does not have joint control shall account for that investment in accordance with Section 11 *Basic Financial Instruments* or, if it has significant influence in the joint venture, in accordance with Section 14 *Investments in Associates*.

Disclosures

15.19 An investor in a joint venture shall disclose:

(a) the **accounting policy** it uses for recognising its interests in jointly controlled enterprises.

(b) the **carrying amount** of investments in jointly controlled enterprises (see paragraph 4.2(k)).

(c) the fair value of investments in jointly controlled enterprises accounted for using the equity method for which there are published price quotations.

(d) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves.

15.20 For jointly controlled enterprises accounted for in accordance with the equity method, the The venturer shall also make the disclosures required by paragraph 14.14 for equity method investments.

15.21 For jointly controlled enterprises accounted for in accordance with the fair value model, the venturer shall make the disclosures required by paragraphs 11.41–11.44.

Comparison with IFRS for SMEs	
15.1	According to IFRS for SMEs, an investor that is not a parent but has a venturer's interest in one ou more joint venture presents its financial statements in compliance with Section 15 *Investments in Joint Ventures*. It should also elect to present separate financial statements (see § 9.25). According to Law on accounting (art. 15 and 16), all enterprises must establish separate financial statements. In consolidated financial statements, jointly controlled operations, jointly controlled assets and jointly controlled enterprises are accounted in compliance with Section 15. In separate financial statements, jointly controlled operations and jointly controlled assets are accounted for in accordance with the Section 15. Paragraph 9.26 establishes the requirements for accounting for a venturer's interest in a jointly controlled enterprise in separate financial statements. An investor in a jointly controlled enterprise is not required to produce other financial statements within the meaning of IFRS for SMEs.

Section 16 Investment Property

Scope of this section

16.1 This section applies to accounting for investments in land or buildings that meet the definition of **investment property** in paragraph 16.2 and some property interests held by a lessee under an operating lease (see paragraph 16.3) that are treated like investment property. Only investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through profit or loss. All other investment property is accounted for as property, plant and equipment using the cost-depreciation-impairment model in Section 17 *Property, Plant and Equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.

Definition and initial recognition of investment property

16.2 Investment property is property (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:

(a) use in the production or supply of goods or services or for administrative purposes, or

(b) sale in the ordinary course of business.

16.3 A property interest that is held by a lessee under an **operating lease** may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.

16.4 Mixed use property shall be separated between investment property and property, plant and equipment. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.

Measurement at initial recognition

16.5 An enterprise shall measure investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An enterprise shall determine the cost of a self-constructed investment property in accordance with paragraphs 17.10–17.14.

16.6 The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20.9, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the asset is recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount

is recognised as a liability in accordance with paragraph 20.9.

Measurement after recognition

16.7 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in profit or loss. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Paragraphs 11.27–11.32 provide guidance on determining fair value. An enterprise shall account for all other investment property as property, plant and equipment using the cost-depreciation-impairment model in Section 17.

Transfers

16.8 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the enterprise shall thereafter account for that item as property, plant and equipment in accordance with Section 17 until a reliable measure of fair value becomes available. The carrying amount of the investment property on that date becomes its cost under Section 17. Paragraph 16.10(e)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.

16.9 Other than as required by paragraph 16.8, an enterprise shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.

Disclosures

16.10 An enterprise shall disclose the following for all investment property accounted for at fair value through profit or loss (paragraph 16.7):

(a) the methods and significant assumptions applied in determining the fair value of investment property.

(b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) 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 class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

(i) additions, disclosing separately those additions resulting from acquisitions through business combinations.

(ii) net gains or losses from fair value adjustments.

(iii) transfers to property, plant and equipment when a reliable measure of fair value is no longer available without undue cost or effort (see paragraph 16.8).

(iv) transfers to and from inventories and owner-occupied property. (v) other changes.

This reconciliation need not be presented for prior periods.

16.11 In accordance with Section 20 *Leases*, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An enterprise that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 17 Property, Plant and Equipment

Scope of this section

17.1 This section applies to accounting for **property, plant and equipment** and **investment property** whose fair value cannot be measured reliably without undue cost or effort. Section 16 *Investment Property* applies to investment property whose fair value can be measured reliably without undue cost or effort.

17.2 Property, plant and equipment are tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

(b) are expected to be used during more than one period.

17.3 Property, plant and equipment does not include:

(a) biological assets related to agricultural activity (see Section 34 *Specialised Activities*), or

(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

17.4 An enterprise shall apply the recognition criteria in paragraph 2.27 in determining whether to recognise an item of property, plant or equipment. Therefore, the enterprise shall recognise the cost of an item of property, plant and equipment as an asset if, and only if:

(a) it is **probable** that future economic benefits associated with the item will flow to the enterprise, and

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

17.5 Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment are property, plant and equipment when an enterprise expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are considered property, plant and equipment.

17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (eg the roof of a building). An enterprise shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the enterprise. The carrying amount of those parts that are replaced is **derecognised** in accordance with paragraphs 17.27–17.30. Paragraph 17.16 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an enterprise shall allocate the initial cost of the asset to its major components and **depreciate** each such

component separately over its **useful life**.

17.7 A condition of continuing to operate an item of property, plant and equipment (eg a bus) 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 item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

17.8 Land and buildings are separable assets, and an enterprise shall account for them separately, even when they are acquired together.

Measurement at recognition

17.9 An enterprise shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

17.10 The cost of an item of property, plant and equipment comprises all of the following:

(a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase 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. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17.11 The following costs are not costs of an item of property, plant and equipment, and an enterprise shall recognise them as an expense when they are incurred:

(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).

(d) administration and other general overhead costs.

(e) **borrowing costs** (see Section 25 *Borrowing Costs*).

17.12 The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement of cost

17.13 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments.

Exchanges of assets

17.14 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An enterprise shall measure the cost of the acquired asset 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. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition

17.15 An enterprise shall measure all items of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated **impairment losses**. An enterprise shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.

Depreciation

17.16 If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an enterprise shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

17.17 The depreciation charge for each period shall be recognised in profit or loss unless another section of this FRS requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories (see Section 13 *Inventories*).

Depreciable amount and depreciation period

17.18 An enterprise shall allocate the **depreciable amount** of an asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset (see § 17.13), or other amount substituted for cost (see § 17.14) less its **residual value**.

17.19 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an enterprise shall review its previous estimates and, if

current expectations differ, amend the residual value, depreciation method or useful life. The enterprise shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate** in accordance with paragraphs 10.15–10.18.

17.20 Depreciation of an asset begins when it is available for use, ie 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 when the asset is derecognised. 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.

17.21 An enterprise shall consider all the following factors in determining the useful life of an asset:

(a) the 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, and the care and maintenance of the asset while idle.

(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.

Depreciation method

17.22 An enterprise shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.

17.23 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an enterprise expects to consume an asset's future economic benefits, the enterprise shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The enterprise shall account for the change as a change in an accounting estimate in accordance with paragraphs 10.15–10.18.

Impairment

Recognition and measurement of impairment

17.24 At each **reporting date**, an enterprise shall apply Section 27 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an enterprise 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.

Compensation for impairment

17.25 An enterprise shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

Property, plant and equipment held for sale

17.26 Paragraph 27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.

Derecognition

17.27 An enterprise shall derecognise an item of property, plant and equipment:

(a) on disposal, or

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

17.28 An enterprise shall recognise the gain or loss on the derecognition of an item of property, plant and equipment in profit or loss when the item is derecognised (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The enterprise shall not classify such gains as revenue.

17.29 In determining the date of disposal of an item, an enterprise shall apply the criteria in Section 23 *Revenue* for recognising revenue from the sale of goods. Section 20 applies to disposal by a sale and leaseback.

17.30 An enterprise shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

17.31 An enterprise shall disclose the following for each class of property, plant and equipment that was deemed appropriate in accordance with paragraph 4.11(a):

(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 reporting period.

(e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

(i) additions.

(ii) disposals.

(iii) acquisitions through **business combinations**.

(iv) transfers to investment property if a reliable measure of fair value becomes available (see paragraph 16.8).

(v) impairment losses recognised or reversed in profit or loss in accordance with Section 27.

(vi) depreciation.

(vii) other changes.

This reconciliation need not be presented for prior periods.

17.32 The enterprise shall also disclose the following:

(a) the existence and carrying amounts of property, plant and equipment to which the enterprise has restricted title or that is pledged as security for liabilities.

(b) the amount of contractual commitments for the acquisition of property, plant and equipment.

Comparison with IFRS for SMEs	
17.18	IFRS for SMEs do not specify that the depreciable amount takes into account the residual value (see Glossary: depreciate amount).

Section 18 Intangible Assets other than Goodwill

Scope of this section

18.1 This section applies to accounting for all **intangible assets** other than **goodwill** (see Section 19 *Business Combinations and Goodwill*) and intangible assets held by an enterprise for sale in the ordinary course of business (see Section 13 *Inventories* and Section 23 *Revenue*).

18.2 An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

(a) it is separable, ie capable of being separated or divided from the enterprise and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or

(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the enterprise or from other rights and obligations.

18.3 Intangible assets do not include:

(a) **financial assets**, or

(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

General principle for recognising intangible assets

18.4 An enterprise shall apply the recognition criteria in paragraph 2.27 in determining whether to recognise an intangible asset. Therefore, the enterprise shall recognise an intangible asset as an asset if, and only if:

(a) it is **probable** that the expected future economic benefits that are attributable to the asset will flow to the enterprise;

(b) the cost or value of the asset can be measured reliably; and

(c) the asset does not result from expenditure incurred internally on an intangible item.

18.5 An enterprise shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.

18.6 An enterprise uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

18.7 The probability recognition criterion in paragraph 18.4(a) is always considered satisfied for intangible assets that are separately acquired.

Acquisition as part of a business combination

18.8 An intangible asset acquired in a **business combination** is normally recognised as an asset because its **fair value** can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognised when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either

(a) is not separable from goodwill, or

(b) is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.

Initial measurement

18.9 An enterprise shall measure an intangible asset initially at cost.

Separate acquisition

18.10 The cost of a separately acquired intangible asset comprises:

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

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

The cost is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments

Acquisition as part of a business combination

18.11 If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

Acquisition by way of a government grant

18.12 If an intangible asset is acquired by way of a **government grant**, the cost of that intangible asset is its fair value at the date the grant is received or receivable in accordance with Section 24 *Government Grants*.

Exchanges of assets

18.13 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An enterprise shall measure the cost of such an intangible asset 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. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

Internally generated intangible assets

18.14 An enterprise shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an expense when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this FRS.

18.15 As examples of applying the preceding paragraph, an enterprise shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:

(a) internally generated brands, logos, publishing titles, customer lists and items similar in substance.

(b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal enterprise, expenditure to open a new facility or business (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs).

(c) training activities.

(d) advertising and promotional activities.

(e) relocating or reorganising part or all of an enterprise.

(f) internally generated goodwill.

18.16 Paragraph 18.15 does not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Past expenses not to be recognised as an asset

18.17 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an asset.

Measurement after recognition

18.18 An enterprise shall measure intangible assets at cost less any accumulated **amortisation** and any accumulated **impairment losses**. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 *Impairment of Assets*.

Amortisation over useful life

18.19 For the purpose of this FRS, all intangible assets shall be considered to have a finite useful life. 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 enterprise 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 enterprise without significant cost.

18.20 If an enterprise is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years.

Amortisation period and amortisation method

18.21 An enterprise shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be

recognised as an expense, unless another section of this FRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

18.22 Amortisation begins when the intangible asset is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The enterprise shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the enterprise cannot determine that pattern reliably, it shall use the straight-line method.

Residual value

18.23 An enterprise shall assume that the **residual value** of an intangible asset is 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

18.24 Factors such as a change in how an intangible asset is used, technological advancement, and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an enterprise shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The enterprise shall account for the change in residual value, amortisation method or useful life as a change in an accounting estimate in accordance with paragraphs 10.15–10.18.

Recoverability of the carrying amount—impairment losses

18.25 To determine whether an intangible asset is impaired, an enterprise shall apply Section 27. That section explains when and how an enterprise 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

18.26 An enterprise shall derecognise an intangible asset, and shall recognise a gain or loss in profit or loss:

(a) on disposal, or

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

Disclosures

18.27 An enterprise shall disclose the following for each class of intangible assets:

(a) the useful lives or the amortisation rates used.

(b) the amortisation methods used.

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.

(d) the line item(s) in 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 reporting period showing separately:

(i) additions.

(ii) disposals.

(iii) acquisitions through business combinations.

(iv) amortisation.

(v) impairment losses.

(vi) other changes.

This reconciliation need not be presented for prior periods.

18.28 An enterprise shall also disclose:

(a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the enterprise's financial statements.

(b) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 18.12):

(i) the fair value initially recognised for these assets, and

(ii) their carrying amounts.

(c) the existence and carrying amounts of intangible assets to which the enterprise has restricted title or that are pledged as security for liabilities.

(d) the amount of contractual commitments for the acquisition of intangible assets.

18.29 An enterprise shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this FRS).

Comparison with IFRS for SMEs	
§ 18.10	It is reminded that if payment is deferred beyond normal credit terms, the cost is the present value of the present value of all future payments. It is a general rule of measurement of IFRS for SMEs (see Section 17 § 17.13).

Section 19 Business Combinations and Goodwill

This section considers economic events which still do not exist in Lao PDR but are supposed to appear in the following years.

Scope of this section

19.1 This section applies to accounting for **business combinations**. It provides guidance on identifying the acquirer, measuring the cost of the business combination, and allocating that cost to the assets acquired and liabilities and provisions for **contingent liabilities** assumed. It also addresses accounting for **goodwill** both at the time of a business combination and subsequently.

19.2 This section specifies the accounting for all business combinations except:

(a) combinations of enterprises or **businesses** under common **control**. Common control means that all of the combining enterprises or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory;

(b) the formation of a **joint venture** ;

(c) acquisition of a group of assets that do not constitute a business.

Business combinations defined

19.3 A business combination is the bringing together of separate enterprises or businesses into one reporting enterprise. The result of nearly all business combinations is that one enterprise, the acquirer, obtains control of one or more other businesses, the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

19.4 A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an enterprise of the equity of another enterprise, the purchase of all the net assets of another enterprise, the assumption of the liabilities of another enterprise, or the purchase of some of the net assets of another enterprise that together form one or more businesses.

19.5 A business combination may be effected by the issue of equity instruments, the transfer of cash, **cash equivalents** or other assets, or a mixture of these. The transaction may be between the shareholders of the combining enterprises or between one enterprise and the shareholders of another enterprise. It may involve the establishment of a new enterprise to control the combining enterprises or net assets transferred, or the restructuring of one or more of the combining enterprises.

Accounting

19.6 All business combinations shall be accounted for by applying the purchase method.

19.7 Applying the purchase method involves the following steps:

(a) identifying an acquirer.

(b) measuring the cost of the business combination.

(c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for **contingent liabilities** assumed.

Identifying the acquirer

19.8 An acquirer shall be identified for all business combinations. The acquirer is the combining enterprise that obtains control of the other combining enterprises or businesses.

19.9 Control is the power to govern the financial and operating policies of an enterprise or business so as to obtain benefits from its activities. Control of one enterprise by another is described in Section 9 *Consolidated and Separate Financial Statements*.

19.10 Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:

(a) if the **fair value** of one of the combining enterprises is significantly greater than that of the other combining enterprise, the enterprise with the greater fair value is likely to be the acquirer;

(b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the enterprise giving up cash or other assets is likely to be the acquirer;

(c) if the business combination results in the management of one of the combining enterprises being able to dominate the selection of the management team of the resulting combined enterprise, the enterprise whose management is able so to dominate is likely to be the acquirer.

Cost of a business combination

19.11 The acquirer shall measure the cost of a business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus

(b) any costs directly attributable to the business combination.

Adjustments to the cost of a business combination contingent on future events

19.12 When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is **probable** and can be measured reliably.

19.13 However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed

19.14 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria in paragraph 19.20 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22–19.24 (as goodwill or so-called "negative goodwill").

19.15 The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

(a) In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.

(b) In the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably.

(c) In the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

19.16 The acquirer's income statement shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's income statement that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, ie their cost to the acquirer.

19.17 Application of the purchase method starts from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an enterprise or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.

19.18 In accordance with paragraph 19.14, the acquirer recognises separately only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and satisfy the recognition criteria in paragraph 19.15. Therefore:

(a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with Section 21 *Provisions and Contingencies*; and

(b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.

19.19 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 recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date (ie account for them as if they were made at the acquisition date) to reflect new information obtained. Beyond twelve months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognised only to correct an error in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Contingent liabilities

19.20 Paragraph 19.14 specifies that the acquirer recognises separately a provision for a contingent liability of the acquiree only if its fair value can be measured reliably. If its fair value cannot be measured reliably:

(a) there is a resulting effect on the amount recognised as goodwill or accounted for in accordance with paragraph 19.24; and

(b) the acquirer shall disclose the information about that contingent liability as required by Section 21.

19.21 After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 19.14 at the higher of:

(a) the amount that would be recognised in accordance with Section 21, and

(b) the amount initially recognised less amounts previously recognised as revenue in accordance with Section 23 *Revenue*.

Goodwill

19.22 The acquirer shall, at the acquisition date:

(a) recognise goodwill acquired in a business combination as an asset, and

(b) initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 19.14.

19.23 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated **amortisation** and accumulated **impairment** losses:

(a) An enterprise shall follow the principles in paragraphs 18.19–18.24 for amortisation of goodwill. If an enterprise is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be ten years.

(b) An enterprise shall follow Section 27 Impairment of Assets for recognising and measuring the impairment of goodwill.

Excess over cost of acquirer's interest in the net fair value of acquiree's identifiable

assets, liabilities and contingent liabilities

19.24 If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 19.14 exceeds the cost of the business combination (sometimes referred to as "negative goodwill"), the acquirer shall:

(a) reassess the identification and measurement of the acquiree's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination, and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

Disclosures

For business combination(s) effected during the reporting period

19.25 For each business combination that was effected during the period, the acquirer shall disclose the following:

(a) the names and descriptions of the combining enterprises or businesses.

(b) the acquisition date.

(c) the percentage of voting equity instruments acquired.

(d) the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments).

(e) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill.

(f) the amount of any excess recognised in profit or loss in accordance with paragraph 19.24, and the line item in the income statement in which the excess is recognised.

For all business combinations

19.26 An acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately:

(a) changes arising from new business combinations.

(b) impairment losses.

(c) disposals of previously acquired businesses.

(d) other changes.

This reconciliation need not be presented for prior periods.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 20 Leases

Scope of this section

20.1 This section covers accounting for all **leases** other than:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34 *Specialised Activities*).

(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see Section 18 *Intangible Assets other than Goodwill*).

(c) measurement of property held by lessees that is accounted for as investment property and measurement of **investment property** provided by lessors under operating leases (see Section 16 *Investment Property*).

(d) measurement of **biological assets** held by lessees under finance leases and biological assets provided by lessors under operating leases (see Section 34 *Specialised Activities*).

(e) leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated to changes in the price of the leased asset, changes in foreign exchange rates, or a default by one of the counterparties [see paragraph 12.3(f)].

(f) operating leases that are onerous.

20.2 This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

20.3 Some arrangements, such as outsourcing arrangements, telecommunication contracts that provide rights to capacity, and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets, and they should be accounted for under this section.

Classification of leases

20.4 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.

20.5 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.

(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

20.6 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 **residual value** of the leased asset accrue to the lessee (eg in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

20.7 The examples and indicators in paragraphs 20.5 and 20.6 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. For example, this may be the case if ownership of the asset is transferred to the lessee at the end of the lease for a variable payment equal to the asset's then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all risks and rewards incidental to ownership.

20.8 Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

Financial statements of lessees—finance leases

Initial recognition

20.9 At the commencement of the lease term, a lessee shall recognise its rights of use and obligations under finance leases as assets and liabilities in its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.

20.10 The present value of the minimum lease payments should be calculated using the

interest rate implicit in the lease. If this cannot be determined, the **lessee's incremental borrowing rate** shall be used.

Subsequent measurement

20.11 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the effective interest method (see paragraphs 11.15–11.20). The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as expenses in the periods in which they are incurred.

20.12 A lessee shall depreciate an asset leased under a finance lease in accordance with the relevant section of this FRS for that type of asset, eg Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill* or Section 19 *Business Combinations and Goodwill*. 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. A lessee shall also assess at each **reporting date** whether an asset leased under a finance lease is impaired (see Section 27 *Impairment of Assets*).

Disclosures

20.13 A lessee shall make the following disclosures for finance leases:

(a) for each **class of asset**, the net **carrying amount** at the end of the **reporting period**.

(b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years.

(c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17 *Property, Plant and Equipment*, 18 *Intangible Assets other than Goodwill*, 27 *Impairment of Assets* and 34 *Specialised activities* apply to lessees for assets leased under finance leases.

Financial statements of lessees—operating leases

Recognition and measurement

20.15 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless either

(a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis, or

(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition (b) is not met.

Example of applying paragraph 20.15(b):

The consensus forecast by local banks is that the general price level index, as published by the government, will increase by an average of 10 per cent annually over the next five years. X leases some office space from Y for five years under an operating lease. The lease payments are structured to reflect the expected 10 per cent annual general inflation over the five-year term of the lease as follows

Year 1	KKip 100 000
Year 2	KKip 110 000
Year 3	KKip 121 000
Year 4	KKip 133 000
Year 5	KKip 146 000

X recognises annual rent expense equal to the amounts owed to the lessor as shown above. If the escalating payments are not clearly structured to compensate the lessor for expected inflationary cost increases based on published indexes or statistics, then X recognises annual rent expense on a straight-line basis: KKip122 000 each year (sum of the amounts payable under the lease divided by five years).

Disclosures

20.16 A lessee shall make the following disclosures for operating leases:

(a) 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; and

(iii) later than five years.

(b) lease payments recognised as an expense.

(c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors: finance leases

Initial recognition and measurement

20.17 A lessor shall recognise assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the **net investment in the lease**. The net investment in a lease is the lessor's **gross investment in the lease** discounted at the interest rate implicit in the lease. The gross investment in the lease is 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.

20.18 For finance leases other than those involving manufacturer or dealer lessors, initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Subsequent measurement

20.19 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. 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. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised immediately in profit or loss.

Manufacturer or dealer lessors

20.20 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.

20.21 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 enterprise's policy for outright sales.

20.22 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.

Disclosures

20.23 A lessor shall make the following disclosures for finance leases:

(a) reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(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 significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors: operating leases

Recognition and measurement

20.24 A lessor shall present assets subject to operating leases in its statement of financial position according to the nature of the asset.

20.25 A lessor shall recognise lease income from operating leases (excluding amounts for services such as insurance and maintenance) in profit or loss on a straight-line basis over the lease term, unless either

(a) another systematic basis is representative of the time pattern of the lessee's benefit from the leased asset, even if the receipt of payments is not on that basis, or

(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then condition (b) is not met.

20.26 A lessor shall recognise as an expense costs, including depreciation, incurred in earning the lease income. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.

20.27 A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.

20.28 To determine whether a leased asset has become impaired, a lessor shall apply Section 27 *Impairment of Assets*.

20.29 A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

Disclosures

20.30 A lessor shall disclose the following for operating leases:

(a) the future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year; and

(ii) later than one year and not later than five years; and

(iii) later than five years.

(b) total contingent rents recognised as income.

(c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, and restrictions imposed by lease arrangements.

20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17 *Property, Plant and Equipment*, 18 *Intangible Assets other than Goodwill*, 27 *Impairment of Assets* and 34 *Specialised activities* apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

20.32 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 on the type of lease.

Sale and leaseback transaction results in a finance lease

20.33 If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortise it over the lease term.

Sale and leaseback transaction results in an operating lease

20.34 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any profit or loss immediately. If the sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such loss

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 seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.

Disclosures

20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 21 Provisions and Contingencies

Scope of this section

21.1 This section applies to all **provisions** (ie liabilities of uncertain timing or amount), **contingent liabilities** and **contingent assets** except those provisions covered by other sections of this FRS. These include provisions relating to:

(a) leases (Section 20 *Leases*). However, this section deals with operating leases that have become onerous (see § 21A.2).

(b) construction contracts (Section 23 *Revenue*).

(c) employee benefit obligations (Section 28 *Employee Benefits*).

(d) income tax (Section 29 *Income Tax*).

21.2 The requirements in this section do not apply to executory contracts unless they are **onerous contracts**. 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.

Initial recognition

21.4 An enterprise shall recognise a provision only when:

(a) the enterprise has an obligation at the **reporting date** as a result of a past event;

(b) it is **probable** (ie more likely than not) that the enterprise will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.

21.5 The enterprise shall recognise the provision as a liability in the statement of financial position and shall recognise the amount of the provision as an expense, unless another section of this FRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

21.6 The condition in paragraph 21.4(a) (obligation at the **reporting date** as a result of a past event) means that the enterprise has no realistic alternative to settling the obligation. This can happen when the enterprise has a legal obligation that can be enforced by law or when the enterprise has a **constructive obligation** because the past event (which may be an action of the enterprise) has created valid expectations in other parties that the enterprise will discharge the obligation. Obligations that will arise from the enterprise's future actions (ie the future conduct of its business) do not satisfy the condition in paragraph 21.4(a), no matter how likely they are to occur and even if they are contractual. To illustrate, because of commercial pressures or legal requirements, an enterprise may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a particular type of factory). Because the enterprise can avoid the future expenditure by its future actions, for example by changing its method of operation or selling the factory, it has no present obligation for that future expenditure and no provision is recognised.

Initial measurement

21.7 An enterprise shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an enterprise would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

(a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

(b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the enterprise considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.

When the effect of the time value of money is **material**, the amount of a provision shall be the **present value** of the amount expected to be required to settle the obligation. 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. The risks specific to the liability should be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.

21.8 An enterprise shall exclude gains from the expected disposal of assets from the measurement of a provision.

21.9 When some or all of the amount required to settle a provision may be reimbursed by another party (eg through an insurance claim), the enterprise shall recognise the reimbursement as a separate asset only when it is virtually certain that the enterprise will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. In the income statement, the enterprise does not offset any reimbursement from another party against the expense relating to the provision.

Subsequent measurement

21.10 An enterprise shall charge against a provision only those expenditures for which the provision was originally recognised.

21.11 An enterprise shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset (see paragraph 21.5). When a provision is measured at the present value

of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognised as a finance cost in profit or loss in the period it arises.

Contingent liabilities

21.12 A **contingent liability** is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 21.4. An enterprise shall not recognise a contingent liability as a liability, except for provisions for contingent liabilities of an acquiree in a business combination (see paragraphs 19.20 and 19.21). Disclosure of a contingent liability is required by paragraph 21.15 unless the possibility of an outflow of resources is remote. When an enterprise 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.

Contingent assets

21.13 An enterprise shall not recognise a **contingent asset** as an asset. Disclosure of a contingent asset is required by paragraph 21.16 when an inflow of economic benefits is probable. However, when the flow of future economic benefits to the enterprise is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

21.14 For each class of provision, an enterprise shall disclose all of the following:

(a) a reconciliation showing

(i) the carrying amount at the beginning and end of the period;

(ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;

(iii) amounts charged against the provision during the period; and

(iv) unused amounts reversed during the period.

(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments.

(c) an indication of the uncertainties about the amount or timing of those outflows.

(d) he amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

21.15 Unless the possibility of any outflow of resources in settlement is remote, an enterprise shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

(a) an estimate of its financial effect, measured in accordance with paragraphs 21.7–

21.11;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

21.16 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an enterprise shall disclose a description of the nature of the contingent assets at the end of the **reporting period**, and, when practicable without undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7–21.11. If it is impracticable to make this disclosure, that fact shall be stated.

Prejudicial disclosures

21.17 In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14–21.16 can be expected to prejudice seriously the position of the enterprise in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an enterprise 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.

Appendix to Section 21

Guidance on recognising and measuring provisions

This Appendix accompanies, but is not part of, Section 21. It provides guidance for applying the requirements of Section 21 in recognising and measuring provisions.

All of the enterprises in the examples in this Appendix have 31 December as their reporting date. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets; this aspect is not dealt with in the examples. References to "best estimate" are to the present value amount, when the effect of the time value of money is material.

Example 1 Future operating losses

21A.1 An enterprise determines that it is probable that a segment of its operations will incur future operating losses for several years.

Present obligation as a result of a past obligating event-There is no past event that obliges the enterprise to pay out resources.

Conclusion—The enterprise does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired—see Section 27 *Impairment of Assets*.

Example 2 Onerous contracts

21A.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The

unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. For example, an enterprise may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use.

Present obligation as a result of a past obligating event—The enterprise is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion—If an enterprise has a contract that is onerous, the enterprise recognises and measures the present obligation under the contract as a provision.

Example 3 Restructurings

21A.3 A restructuring is a programme that is planned and controlled by management and materially changes either the scope of a business undertaken by an enterprise or the manner in which that business is conducted.

Present obligation as a result of a past obligating event—A constructive obligation to restructure arises only when an enterprise:

(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; and

(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.

Conclusion—An enterprise recognises a provision for restructuring costs only when it has a legal or constructive obligation at the reporting date to carry out the restructuring.

Example 4 Warranties

21A.4 A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On the basis of experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event—The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement—Probable for the warranties as a whole.

Conclusion—The enterprise recognises a provision for the best estimate of the costs of

making good under the warranty products sold before the reporting date.

Illustration of calculations:

In 20X0, goods are sold for KKip 1 000 000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of products sold require major repairs or replacement costing 70 per cent of sale price. Therefore, estimated warranty costs are:

KKip 1 000 000 × 90% × 0	=	KKip 0
KKip 1 000 000 × 6% × 30%	=	KKip 18 000
KKip 1 000 000 × 4% × 70%	=	KKip 28 000
Total	=	KKip 46 000

The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2, and 10 per cent in 20X3, in each case at the end of the period. Because the estimated cash flows already reflect the probabilities of the cash outflows, and assuming there are no other risks or uncertainties that must be reflected, to determine the present value of those cash flows the enterprise uses a 'risk-free' discount rate based on government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds). Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0 is as follows:

Year	Expected cash payments(KKip)		Discount rate	Discount factor	Present value (KKip)
20X1	KKip 46 000 × 60%	27 600	6%	0.9434 (at 6% for 1 year)	26 038
20X2	KKip 46 000 × 30%	13 800	7%	0.8734 (at 7% for 2 years)	12 053
20X3	KKip 46 00010% ×	4 600	7%	0.81 63 (at 7% for 3 years)	3 755
Total					41 846

The enterprise will recognise a warranty obligation of KKip 41 846 at the end of 20X0 for products sold in 20X0.

Example 5 Refunds policy

21A.5 A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Present obligation as a result of a past obligating event—The obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the

store has created a valid expectation on the part of its customers that the store will refund purchases.

An outflow of resources embodying economic benefits in settlement—Probable that a proportion of goods will be returned for refund.

Conclusion—The enterprise recognises a provision for the best estimate of the amount required to settle the refunds.

Example 6 Closure of a division—no implementation before end of reporting period

21A.6 On 12 December 20X0 the board of an enterprise decided to close down a division. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of a past obligating event—There has been no obligating event, and so there is no obligation.

Conclusion—The enterprise does not recognise a provision.

Example 7 Closure of a division—communication and implementation before end of reporting period

21A.7 On 12 December 20X0 the board of an enterprise decided to close a division making a particular product. On 20 December 20X0 a detailed plan for closing the division was agreed by the board, letters were sent to customers warning them to seek an alternative source of supply, and redundancy notices were sent to the staff of the division.

Present obligation as a result of a past obligating event—The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

An outflow of resources embodying economic benefits in settlement—Probable.

Conclusion—The enterprise recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the division at the reporting date.

Example 8 Staff retraining as a result of changes in the income tax system

21A.8 The government introduces changes to the income tax system. As a result of those changes, an enterprise in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with tax regulations. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of a past obligating event—The tax law change does not impose an obligation on an enterprise to do any retraining. An obligating event for recognising a provision (the retraining itself) has not taken place.

Conclusion—The enterprise does not recognise a provision.

Example 9 A court case

21A.9 A customer has sued Enterprise X, seeking damages for injury the customer allegedly sustained from using a product sold by Enterprise X. Enterprise X disputes liability on grounds that the customer did not follow directions in using the product. Up to the date the board authorised the financial statements for the year to 31 December 20X1 for issue, the enterprise's lawyers advise that it is probable that the enterprise will not be found liable. However, when the enterprise prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the enterprise will be found liable.

(a) At 31 December 20X1

Present obligation as a result of a past obligating event—On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion—No provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) At 31 December 20X2

Present obligation as a result of a past obligating event—On the basis of the evidence available, there is a present obligation. The obligating event is the sale of the product to the customer.

An outflow of resources embodying economic benefits in settlement—Probable.

Conclusion—A provision is recognised at the best estimate of the amount to settle the obligation at 31 December 20X2, and the expense is recognised in profit or loss. It is not a correction of an error in 20X1 because, on the basis of the evidence available when the 20X1 financial statements were approved, a provision should not have been recognised at that time.

Comparison with IFRS for SMEs	
21.3	FRS for LEs does not uses the word "provisions" in the context of such items as depreciation, impairment of assets and uncollectible receivables. The paragraph is deleted.
21.9	In the income statement, reimbursement from another party shall not be offset against the provision.

Section 22 Liabilities and Equity

This section considers economic events which still do not exist in Lao PDR but are supposed to appear in the following years.

Scope of this section

22.1 This section establishes principles for classifying financial instruments as either liabilities or equity and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in **equity** instruments (ie in their capacity as **owners**). Section 26 *Share-based Payment* addresses accounting for a transaction in which the enterprise receives goods or services (including employee services) as consideration for its equity instruments (including shares or share options) from employees and other vendors acting in their capacity as vendors of goods and services.

22.2 This section shall be applied when classifying all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 *Interests in Joint Ventures*.

(b) employers' rights and obligations under employee benefit plans, to which Section 28 *Employee Benefits* applies.

(c) contracts for contingent consideration in a business combination (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.

(d) financial instruments, contracts and obligations under share-based payment transactions to which Section 26 *Share-based Payment* applies, except that paragraphs 22.3–22.6 shall be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

Classification of an instrument as liability or equity

22.3 Equity is the residual interest in the assets of an enterprise after deducting all its liabilities. A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. Equity includes investments by the owners of the enterprise, plus additions to those investments earned through profitable operations and retained for use in the enterprise's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

22.4 Some financial instruments that meet the definition of a **liability** are classified as equity

because they represent the residual interest in the net assets of the enterprise:

(a) A puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity instrument:

(i) It entitles the holder to a pro rata share of the enterprise's net assets in the event of the enterprise's liquidation. The enterprise's net assets are those assets that remain after deducting all other claims on its assets.

(ii) The instrument is in the class of instruments that is subordinate to all other classes of instruments.

(iii) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.

(iv) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the enterprise, and it is not a contract that will or may be settled in the enterprise's own equity instruments.

(v) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the enterprise over the life of the instrument (excluding any effects of the instrument).

(b) Instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity if they impose on the enterprise an obligation to deliver to another party a pro rata share of the net assets of the enterprise only on liquidation.

22.5 The following are examples of instruments that are classified as liabilities rather than equity:

(a) An instrument is classified as a liability if the distribution of net assets on liquidation is subject to a maximum amount (a ceiling). For example, if in liquidation the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net assets are distributed to a charity organisation or the government, the instrument is not classified as equity.

(b) A puttable instrument is classified as equity if, when the put option is exercised, the holder receives a pro rata share of the net assets of the enterprise measured in accordance with this FRS. However, if the holder is entitled to an amount measured on some other basis, the instrument is classified as a liability.

(c) An instrument is classified as a liability if it obliges the enterprise to make payments to the holder before liquidation, such as a mandatory dividend.

(d) A puttable instrument that is classified as equity in a subsidiary's financial statements is classified as a liability in the consolidated **group** financial statements.

(e) A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

22.6 Members' shares in co-operative enterprises and similar instruments are equity if:

(a) the enterprise has an unconditional right to refuse redemption of the members' shares, or

(b) redemption is unconditionally prohibited by law, regulation or the enterprise's governing charter.

Original issue of shares or other equity instruments

22.7 An enterprise shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the enterprise in exchange for the instruments.

(a) If the equity instruments are issued before the enterprise receives the cash or other resources, the enterprise shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset.

(b) If the enterprise receives the cash or other resources before the equity instruments are issued, and the enterprise cannot be required to repay the cash or other resources received, the enterprise shall recognise the corresponding increase in equity to the extent of consideration received.

(c) To the extent that the equity instruments have been subscribed for but not issued, and the enterprise has not yet received the cash or other resources, the enterprise shall not recognise an increase in equity.

22.8 An enterprise shall measure the equity instruments at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement shall be on a **present value** basis.

22.9 An enterprise shall account for the transaction costs of an equity transaction as a deduction from equity, net of any related income tax benefit.

22.10 How the increase in equity arising on the issue of shares or other equity instruments is presented in the statement of financial position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be presented separately.

Sale of options, rights and warrants

22.11 An enterprise shall apply the principles in paragraphs 22.7–22.10 to equity issued by means of sales of options, rights, warrants and similar equity instruments.

Capitalization or bonus issues of shares and share splits

22.12 A capitalization or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to shareholders in proportion to their existing holdings. For example, an enterprise may give its shareholders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an enterprise's existing shares into multiple shares. For example, in a share split, each shareholder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. capitalization and bonus issues and share splits do not change total equity. An enterprise shall reclassify amounts within equity as required by applicable laws.

Convertible debt or similar compound financial instruments

22.13 On issuing convertible debt or similar compound **financial instruments** that contain both a liability and an equity component, an enterprise shall allocate the proceeds between the liability component and the equity component. To make the allocation, the enterprise shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The enterprise shall allocate the residual amount as the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative fair values.

22.14 The enterprise shall not revise the allocation in a subsequent period.

22.15 In periods after the instruments were issued, the enterprise shall systematically recognize any difference between the liability component and the principal amount payable at maturity as additional interest expense using the **effective interest method** (see paragraphs 11.15–11.20). The appendix to this section illustrates the issuer's accounting for convertible debt.

Treasury shares

22.16 **Treasury shares** are the equity instruments of an enterprise that have been issued and subsequently reacquired by the enterprise. An enterprise shall deduct from equity the fair value of the consideration given for the treasury shares. The enterprise shall not recognize a gain or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

Distributions to owners

22.17 An enterprise shall reduce equity for the amount of distributions to its owners (holders of its equity instruments), net of any related income tax benefits. Paragraph 29.26 provides guidance on accounting for a withholding tax on dividends.

22.18 Sometimes an enterprise distributes assets other than cash as dividends to its owners. When an enterprise declares such a distribution and has an obligation to distribute non-

cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed. At the end of each **reporting period** and at the date of settlement, the enterprise shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution.

Non-controlling interest and transactions in shares of a consolidated subsidiary

22.19 In **consolidated financial statements**, a non-controlling interest in the net assets of a subsidiary is included in equity. An enterprise shall treat changes in a parent's controlling interest in a subsidiary that do not result in a loss of **control** as transactions with equity holders in their capacity as equity holders. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to equity holders of the parent. An enterprise shall not recognise gain or loss on these changes. Also, an enterprise shall not recognise any change in the **carrying amounts** of assets (including goodwill) or liabilities as a result of such transactions.

Appendix to Section 22

Exemple of the issuer's accounting for convertible debt

The Appendix accompanies, but is not part of, Section 22. It provides guidance for applying the requirements of paragraphs 22 .13–22 .15.

On 1 January 20X5 an enterprise issues 500 convertible bonds. The bonds are issued at par with a face value of KKip100 per bond and are for a five-year term, with no transaction costs. The total proceeds from the issue are KKip 50 000. Interest is payable annually in arrears at an annual interest rate of 4 per cent. Each bond is convertible, at the holder's discretion, into 25 ordinary shares at any time up to maturity. At the time the bonds are issued, the market interest rate for similar debt that does not have the conversion option is 6 per cent.

When the instrument is issued, the liability component must be valued first, and the difference between the total proceeds on issue (which is the fair value of the instrument in its entirety) and the fair value of the liability component is assigned to the equity component. The fair value of the liability component is calculated by determining its present value using the discount rate of 6 per cent. The calculations and journal entries are illustrated below:

	KKip
Proceeds from the bond issue (A)	50 000
Present value of principal at the end of five years (see calculations below)	37 363
Present value of interest payable annually in arrears for five years	8 425
Present value of liability, which is the fair value of liability component (B)	45 788
Residual, which is the fair value of the equity component (A) – (B)	4 212

The issuer of the bonds makes the following journal entry at issue on 1 January 20X5:

Dr Cash	KKip 50 000	
Cr Financial Liability – Convertible bond		KKip 45 788
Cr Equity		KKip 4 212

The KKip 4 212 represents a discount on issue of the bonds, so the entry could also be shown "gross":

Dr Cash	KKip 50 000	
Dr Bond discount	KKip 4 212	
Cr Financial Liability – Convertible bond		KKip 50 000
Cr Equity		KKip 4 212

After issue, the issuer will amortise the bond discount according to the following table:

	(a) Interest payment (KKip)	(b) Total interest expenses (KKip)=6%x(e)	© Amortization of bond discount (KKip)=(b)-(a)	(d) Bond discount (KKip)= (d)-(e)	(e) Net liability (KKip)= 50,000-(d)
1/1/20X5				4.212	45.788
31/12/20X5	2.000	2.747	747	3.465	46.535
31/12/20X6	2.000	2.792	792	2.673	47.327
31/12/20X7	2.000	2.840	840	1.833	48.167
31/12/20X8	2.000	2.890	890	943	49.057
31/12/20X9	2.000	2.943	943	0	50.000

Totals	10.000	14.212	4.212

At the end of 20X5, the issuer would make the following journal entry

Interest expense	KKip 2.747	
Bond discount		KKip 747
Cash		KKip 2.000

Calculations

Present value of principal of KKip 50 000 at 6 per cent:

KKip 50 000/(1.06)^5 = KKip 37 363

Present value of the interest annuity of KKip 2 000 (=KKip 50 000 × 4 per cent) payable at the end of each of five years

The KKip 2 000 annual interest payments are an annuity—a cash flow stream with a limited number (n) of periodic payments (C), receivable at dates 1 to n. To calculate the present value of this annuity, future payments are discounted by the periodic rate of interest (i) using the following formula:

$$PV = \frac{C}{i} \times [1 - \frac{1}{(1+i)^n}]$$

Therefore, the present value of the KKip 2 000 interest payments is (KKip 2 000/.06) × [1 – [(1/1.06)^5] = KKip 8 425.

This is equivalent to the sum of the present values of the five individual KKip 2,000 payments, as follows:

		KKip
Present value of interest payment at 31 December 20X5 =	2 000/1.06	1 887
Present value of interest payment at 31 December 20X6 =	2 000/1.06^2	1 780
Present value of interest payment at 31 December 20X7 =	2 000/1.06^3	1 679
Present value of interest payment at 31 December 20X8 =	2 000/1.06^4	1 584
Present value of interest payment at 31 December 20X9 =	2 000/1.06^5	1 495
Total		8 425

Yet another way to calculate this is to use a table of present value of an ordinary annuity in arrears, five periods, interest rate of 6 per cent per period. (Such tables are easily found on the Internet.) The present value factor is 4.2124. Multiplying this by the annuity payment of KKip 2 000 determines the present value of KKip 8 425.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 23 Revenue

This section considers economic events which still do not exist in Lao PDR but are supposed to appear in the following years.

Scope of this section

23.1 This section shall be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods (whether produced by the enterprise for the purpose of sale or purchased for resale).

(b) the rendering of services.

(c) construction contracts in which the enterprise is the contractor.

(d) the use by others of enterprise assets yielding interest, royalties or dividends.

23.2 Revenue or other **income** arising from some transactions and events is dealt with in other sections of this FRS:

(a) lease agreements (see Section 20 *Leases*).

(b) dividends and other income arising from investments that are accounted for using the equity method (see Section 14 *Investments in Associates* and Section 15 *Investments in Joint Ventures*).

(c) changes in the **fair value** of **financial assets** and **financial liabilities** or their disposal (see Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*).

(d) changes in the fair value of **investment property** (see Section 16 *Investment Property*).

(e) initial **recognition** and changes in the fair value of **biological assets** related to agricultural activity (see Section 34 *Specialised Activities*).

(f) initial recognition of **agricultural produce** (see Section 34 *Specialised Activities*).

Measurement of revenue

23.3 An enterprise shall measure revenue at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable takes into account the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the enterprise.

23.4 An enterprise shall include in revenue only the gross inflows of economic benefits received and receivable by the enterprise on its own account. An enterprise shall exclude from revenue all amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. In an agency relationship, an enterprise shall

include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the enterprise.

Deferred payment

23.5 When the inflow of cash or cash equivalents is deferred, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the **present value** of all future receipts determined using an **imputed rate of interest**. A financing transaction arises when, for example, an enterprise provides interest-free credit to the buyer or accepts a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. The imputed rate of interest is the more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating, or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

An enterprise shall recognise the difference between the present value of all future receipts and the nominal amount of the consideration as interest revenue in accordance with paragraphs 23.28 and 23.29 and Section 11 *Basic Financial Iinstruments*.

Exchanges of goods or services

23.6 An enterprise shall not recognise revenue:

(a) when goods or services are exchanged for goods or services that are of a similar nature and value, or

(b) when goods or services are exchanged for dissimilar goods or services but the transaction lacks commercial substance.

23.7 An enterprise shall recognise revenue when goods are sold or services are exchanged for dissimilar goods or services in a transaction that has commercial substance. In that case, the enterprise shall measure the transaction at:

(a) the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred;

(b) if the amount under (a) cannot be measured reliably, then at the fair value of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred; or

(c) if the fair value of neither the asset received nor the asset given up can be measured reliably, then at the **carrying amount** of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

Identification of the revenue transaction

23.8 An enterprise usually applies the revenue recognition criteria in this section separately to each transaction. However, an enterprise applies the recognition criteria to the separately identifiable components of a single transaction when necessary to reflect the substance of the transaction. For example, an enterprise applies the recognition criteria

to the separately identifiable components of a single transaction when the selling price of a product includes an identifiable amount for subsequent servicing. Conversely, an enterprise applies the recognition criteria 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. For example, an enterprise applies the recognition criteria to two or more transactions together when it sells goods and, at the same time, enters into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction.

23.9 Sometimes, as part of a sales transaction, an enterprise grants its customer a loyalty award that the customer may redeem in the future for free or discounted goods or services. In this case, in accordance with paragraph 23.8, the enterprise shall account for the award credits as a separately identifiable component of the initial sales transaction. The enterprise shall allocate the fair value of the consideration received or receivable in respect of the initial sale between the award credits and the other components of the sale. The consideration allocated to the award credits shall be measured by reference to their fair value, ie the amount for which the award credits could be sold separately.

Sale of goods

23.10 An enterprise shall recognise revenue from the sale of goods when all the following conditions are satisfied:

(a) the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods.

(b) the enterprise 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 enterprise.

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

23.11 The assessment of when an enterprise 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 time different from the transfer of legal title or the passing of possession.

23.12 An enterprise does not recognise revenue if it retains significant risks of ownership. Examples of situations in which the enterprise may retain the significant risks and rewards of ownership are:

(a) when the enterprise retains an obligation for unsatisfactory performance not covered by normal warranties.

(b) when the receipt of the revenue from a particular sale is contingent on the buyer

selling the goods.

(c) when the goods are shipped subject to installation and the installation is a significant part of the contract that has not yet been completed.

(d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract, or at the buyer's sole discretion without any reason, and the enterprise is uncertain about the probability of return.

23.13 If an enterprise retains only an insignificant risk of ownership, the transaction is a sale and the enterprise recognises the revenue. For example, a seller recognises revenue when it retains the legal title to the goods solely to protect the collectibility of the amount due. Similarly an enterprise recognises revenue when it offers a refund if the customer finds the goods faulty or is not satisfied for other reasons, and the enterprise can estimate the returns reliably. In such cases, the enterprise recognises a provision for returns in accordance with Section 21 *Provisions and Contingencies*.

Rendering of services

23.14 When the outcome of a transaction involving the rendering of services can be estimated reliably, an enterprise shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the **reporting period** (sometimes referred to as the percentage of completion method). 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 enterprise.

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably.

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Paragraphs 23.21–23.27 provide guidance for applying the percentage of completion method.

23.15 When services are performed by an indeterminate number of acts over a specified period of time, an enterprise recognises revenue on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other act, the enterprise postpones recognition of revenue until the significant act is executed.

23.16 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an enterprise shall recognise revenue only to the extent of the expenses recognised that are recoverable.

Construction contracts

23.17 When the outcome of a **construction contract** can be estimated reliably, an enterprise

shall recognise contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectibility of billings. Paragraphs 23.21–23.27 provide guidance for applying the percentage of completion method.

23.18 The requirements of this section are usually applied separately to each construction contract. However, in some circumstances, it is necessary to apply this section 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.

23.19 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 are 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.

23.20 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.

Percentage of completion method

23.21 This method is used to recognise revenue from rendering services (see paragraphs 23.14–23.16) and from construction contracts (see paragraphs 23.17–23.20). An enterprise shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

23.22 An enterprise shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:

(a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments.

(b) surveys of work performed.

(c) completion of a physical proportion of the service transaction or contract work.

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

23.23 An enterprise shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.

23.24 An enterprise shall recognise as an expense immediately any costs whose recovery is not probable.

23.25 When the outcome of a construction contract cannot be estimated reliably:

(a) an enterprise shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable, and

(b) the enterprise shall recognise contract costs as an expense in the period in which they are incurred.

23.26 When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognised as an expense immediately, with a corresponding provision for an onerous contract (see Section 21).

23.27 If the collectibility of an amount already recognised as contract revenue is no longer probable, the enterprise shall recognise the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

Interest, royalties and dividends

23.28 An enterprise shall recognise revenue arising from the use by others of enterprise assets yielding interest, royalties and dividends on the bases set out in paragraph 23.29 when:

(a) it is probable that the economic benefits associated with the transaction will flow to the enterprise, and

(b) the amount of the revenue can be measured reliably.

23.29 An enterprise shall recognised revenue on the following bases:

(a) interest shall be recognised using the **effective interest method** as described in paragraphs 11.15–11.20.

(b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

(c) dividends shall be recognised when the shareholder's right to receive payment is established.

Disclosures

General disclosures about revenue

23.30 An enterprise 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 category of revenue recognised during the period, showing separately, at a minimum, revenue arising from:

(i) the sale of goods.

(ii) the rendering of services.

(iii) interest.

(iv) royalties.

(v) dividends.

(vi) commissions.

(vii) government grants.

(viii) any other significant types of revenue.

Disclosures relating to revenue from construction contracts

23.31 An enterprise shall disclose the following:

(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.

(c) the methods used to determine the stage of completion of contracts in progress.

23.32 An enterprise shall present:

(a) the gross amount due from customers for contract work, as an asset.

(b) the gross amount due to customers for contract work, as a liability.

Appendix to Section 23

Exemple of revenue recognition under the principles in Section 23

This Appendix accompagnies, but is not part of Section 23. It provides guidance for applying the requirements of Section 23 in recognising revenues.

23A.1 The following examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors that might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the enterprise and the costs incurred or to be incurred can be measured reliably.

Sale of goods

23A.2 Observation for consolidated financial statements:the law in different countries may cause the recognition criteria in Section 23 to be met at different times. In particular, the law may determine the point in time at which the enterprise transfers the significant risks and rewards of ownership. Therefore, the examples in this appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place.

Example 1 "Bill and hold" sales, in which delivery is delayed at the buyer's request but the buyer takes title and accepts billing

23A.3 The seller recognises revenue when the buyer takes title, provided:

(a) it is probable that delivery will be made;

(b) the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;

(c) the buyer specifically acknowledges the deferred delivery instructions; and

(d) the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

Example 2 Goods shipped subject to conditions: installation and inspection

23A.4 The seller normally recognises revenue when the buyer accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the buyer's acceptance of delivery when:

(a) the installation process is simple, for example the installation of a factory¬tested television receiver that requires only unpacking and connection of power and antennae, or

(b) the inspection is performed only for the purposes of final determination of contract prices, for example, shipments of iron ore, sugar or soya beans.

Example 3 Goods shipped subject to conditions: on approval when the buyer has negotiated a limited right of return

23A.5 If there is uncertainty about the possibility of return, the seller recognises revenue when the shipment has been formally accepted by the buyer or the goods have been delivered and the time period for rejection has elapsed.

Example 4 Goods shipped subject to conditions: consignment sales under which the recipient (buyer) undertakes to sell the goods on behalf of the shipper (seller)

23A.6 The shipper recognises revenue when the goods are sold by the recipient to a third party.

Example 5 Goods shipped subject to conditions: cash on delivery sales

23A.7 The seller recognises revenue when delivery is made and cash is received by the seller or its agent.

Example 6 Layaway sales under which the goods are delivered only when the buyer makes the final payment in a series of instalments

23A.8 The seller recognises revenue from such sales when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognised when a significant deposit is received, provided the goods are on hand, identified and ready for delivery to the buyer.

Example 7 Orders when payment (or partial payment) is received in advance of delivery for goods not currently held in inventory, for example, the goods are still to be manufactured or will be delivered direct to the buyer from a third party

23A.9 The seller recognises revenue when the goods are delivered to the buyer.

Example 8 Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the buyer has a put option to require the repurchase, by the seller, of the goods

23A.10 For a sale and repurchase agreement on an asset other than a financial asset, the seller must analyse the terms of the agreement to ascertain whether, in substance, the risks and rewards of ownership have been transferred to the buyer. If they have been transferred, the seller recognises revenue. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, the derecognition provisions of Section 11 *basis financial instruments* apply.

Example 9 Sales to intermediate parties, such as distributors, dealers or others for resale

23A.11 The seller generally recognises revenue from such sales when the risks and rewards of ownership have been transferred. However, when the buyer is acting, in substance, as an agent, the sale is treated as a consignment sale.

Example 10 Subscriptions to publications and similar items

23A.12 When the items involved are of similar value in each time period, the seller recognises revenue on a straight-line basis over the period in which the items are dispatched. When the items vary in value from period to period, the seller recognises revenue on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

Example 11 Instalment sales, under which the consideration is receivable in instalments

23A.13 The seller recognises revenue attributable to the sales price, exclusive of interest, at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The seller recognises the interest element as revenue using the effective interest method.

Example 12 Agreements for the construction of real estate

23A.14 An enterprise that undertakes the construction of real estate, directly or through subcontractors, and enters into an agreement with one or more buyers before construction is complete, shall account for the agreement as a sale of services, using the percentage of completion method, only if:

(a) the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not), or

(b) the buyer acquires and supplies construction materials and the enterprise provides only construction services.

23A.15 If the enterprise is required to provide services together with construction materials in order to perform its contractual obligation to deliver real estate to the buyer, the

agreement shall be accounted for as the sale of goods. In this case, the buyer does not obtain control or the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. Rather, the transfer occurs only on delivery of the completed real estate to the buyer.

Example 13 Sale with customer loyalty award

23A.16 An enterprise sells product A for KKip100. Purchasers of product A get an award credit enabling them to buy product B for KKip10. The normal selling price of product B is KKip18. The enterprise estimates that 40 per cent of the purchasers of product A will use their award to buy product B at KKip10. The normal selling price of product A, after taking into account discounts that are usually offered but that are not available during this promotion, is KKip95.

23A.17 The value of the award credit is 40 per cent × [KKip18 – KKip10] = KKip3.20. The enterprise allocates the total revenue of KKip100 between product A and the award credit by reference to their relative values of KKip95 and KKip3.20 respectively. Therefore:

(a) Revenue for product A is KKip100 × [KKip95 / (KKip95 + KKip3.20)] = KKip96.74

(b) Revenue for product B is KKip100 × [KKip3.20 / (KKip95 + KKip.20)] = KKip3.26

Rendering of services

Example 14 Installation fees

23A.18 The seller recognises installation fees as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product, in which case they are recognised when the goods are sold.

Example 15 Servicing fees included in the price of the product

23A.19 When the selling price of a product includes an identifiable amount for subsequent servicing (eg after sales support and product enhancement on the sale of software), the seller defers that amount and recognises it as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

Example 16 Advertising commissions

23A.20 Media commissions are recognised when the related advertisement or commercial appears before the public. Production commissions are recognised by reference to the stage of completion of the project.

Example 17 Insurance agency commissions

23A.21 Insurance agency commissions received or receivable that do not require the agent to render further service are recognised as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the agent defers the commission, or part of it, and recognises it as revenue over the

period during which the policy is in force.

Example 18 Admission fees

23A.22 The seller recognises revenue from artistic performances, banquets and other special events when the event takes place. When a subscription to a number of events is sold, the seller allocates the fee to each event on a basis that reflects the extent to which services are performed at each event.

Example 19 Tuition fees

23A.23 The seller recognises revenue over the period of instruction Example 20 Initiation, entrance and membership fees.

Example 20 Initiation, entrance and membership fees

23A.24 Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognised as revenue when no significant uncertainty about its collectibility exists. If the fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognised on a basis that reflects the timing, nature and value of the benefits provided.

Franchise fees

23A.25 Franchise fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know how. Accordingly, franchise fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise fee recognition are appropriate.

Example 21 Franchise fees: Supplies of equipment and other tangible assets

23A.26 The franchisor recognises the fair value of the assets sold as revenue when the items are delivered or title passes.

Example 22 Franchise fees: Supplies of initial and subsequent services

23A.27 The franchisor recognises fees for the provision of continuing services, whether part of the initial fee or a separate fee, as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable profit, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable profit on those services, is deferred and recognised as revenue as the services are rendered.

23A.28 The franchise agreement may provide for the franchisor to supply equipment, inventories, or other tangible assets at a price lower than that charged to others or a price that does not provide a reasonable profit on those sales. In these circumstances, part of the initial fee, sufficient to cover estimated costs in excess of that price and to provide a reasonable profit on those sales, is deferred and recognised over the period the goods are likely to be sold to the franchisee. The balance of an initial fee is recognised as revenue when performance of all the initial services and other obligations required of the franchisor (such as assistance with site selection, staff

training, financing and advertising) has been substantially accomplished.

23A.29 The initial services and other obligations under an area franchise agreement may depend on the number of individual outlets established in the area. In this case, the fees attributable to the initial services are recognised as revenue in proportion to the number of outlets for which the initial services have been substantially completed.

23A.30 If the initial fee is collectible over an extended period and there is a significant uncertainty that it will be collected in full, the fee is recognised as cash instalments are received.

Example 23 Franchise fees: Continuing franchise fees

23A.31 Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

Example 24 Franchise fees: Agency transactions

23A.32 Transactions may take place between the franchisor and the franchisee that, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no profit. Such transactions do not give rise to revenue.

Example 25 Fees from the development of customised software

23A.33 The software developer recognises fees from the development of customised software as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support.

Interest, royalties and dividends

Example 26 Licence fees and royalties

23A.34 The licensor recognises fees and royalties paid for the use of an enterprise's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) in accordance with the substance of the agreement. As a practical matter, this may be on a straight-line basis over the life of the agreement, for example, when a licensee has the right to use specified technology for a specified period of time.

23A.35 An assignment of rights for a fixed fee or non-refundable guarantee under a non-cancellable contract that permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations after delivery. Another example is the granting of rights to exhibit a motion picture film in markets in which the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognised at the time of sale.

23A.36 In some cases, whether or not a licence fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 24 Government Grants

Scope of this section

24.1 This section specifies the accounting for all government grants. A **government grant** is assistance by government in the form of a transfer of resources to an enterprise in return for past or future compliance with specified conditions relating to the operating activities of the enterprise.

24.2 Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the enterprise.

24.3 This section does not cover government assistance that is provided for an enterprise 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. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates. Section 29 *Income Tax* covers accounting for taxes based on income.

Recognition and measurement

24.4 An enterprise shall recognise government grants as follows:

(a) A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable.

(b) A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met.

(c) Grants received before the revenue recognition criteria are satisfied are recognised as a liability.

24.5 An enterprise shall measure grants at the fair value of the asset received or receivable.

Disclosures

24.6 An enterprise shall disclose the following about government grants:

(a) the nature and amounts of government grants recognised in the financial statements.

(b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognised in income.

(c) an indication of other forms of government assistance from which the enterprise has directly benefited.

24.7 For the purpose of the disclosure required by paragraph 24.6(c), government assistance is action by government designed to provide an economic benefit specific to an enterprise or range of enterprises qualifying under specified criteria. Examples include free technical or marketing advice, the provision of guarantees, and loans at nil or low interest rates.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 25 Borrowing Costs

Scope of this section

25.1 This section specifies the accounting for **borrowing costs**. Borrowing costs are interest and other costs that an enterprise incurs in connection with the borrowing of funds. Borrowing costs include:

(a) interest expense calculated using the effective interest method as described in Section 11 *Basic Financial Instruments*.

(b) finance charges in respect of finance leases recognised in accordance with Section 20 *Leases*.

(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

25.2 An enterprise shall recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred.

Disclosures

25.3 Paragraph 5.5(b) requires disclosure of finance costs. Paragraph 11.48(b) requires disclosure of total interest expense (using the **effective interest method**) for financial liabilities that are not at fair value through profit or loss. This section does not require any additional disclosure.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 26 Share-based Payment

Scope of this section

26.1 This section specifies the accounting for all **share-based payment transactions** including:

(a) **equity-settled share-based payment** transactions, in which the enterprise acquires goods or services as consideration for **equity** instruments of the enterprise (including shares or share options);

(b) **cash-settled share-based payment** transactions, in which the enterprise acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the enterprise's shares or other equity instruments of the enterprise; and

(c) transactions in which the enterprise receives or acquires goods or services and the terms of the arrangement provide either the enterprise or the supplier of those goods or services with a choice of whether the enterprise settles the transaction in cash (or other assets) or by issuing equity instruments.

26.2 Cash-settled share-based payment transactions include share appreciation rights. For example, an enterprise might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the enterprise's share price from a specified level over a specified period of time. Or an enterprise might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (eg upon cessation of employment) or at the employee's option.

Recognition

26.3 An enterprise shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The enterprise shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

26.4 When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, the enterprise shall recognize them as expenses.

Recognition when there are vesting conditions

26.5 If the share-based payments granted to employees **vest** immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the enterprise shall presume that services rendered by the employee as consideration for the share-based payments have been received. In this case, on grant date the enterprise shall

recognise the services received in full, with a corresponding increase in equity or liabilities.

26.6 If the share-based payments do not vest until the employee completes a specified period of service, the enterprise shall presume that the services to be rendered by the counterparty as consideration for those share-based payments will be received in the future, during the vesting period. The enterprise shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity or liabilities.

Measurement of equity-settled share-based payment transactions

Measurement principle

26.7 For equity-settled share-based payment transactions, an enterprise shall measure the goods or services received, and the corresponding increase in equity, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the enterprise cannot estimate reliably the fair value of the goods or services received, the enterprise shall measure their value, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. To apply this requirement to transactions with employees and others providing similar services, the enterprise shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.

26.8 For transactions with employees (including others providing similar services), the fair value of the equity instruments shall be measured at grant date. For transactions with parties other than employees, the measurement date is the date when the enterprise obtains the goods or the counterparty renders service.

26.9 A grant of equity instruments might be conditional on employees satisfying specified vesting conditions related to service or performance. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the enterprise's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the enterprise achieving a specified growth in profit (a non-market vesting condition) or a specified increase in the enterprise's share price (a market vesting condition). All vesting conditions related to solely employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the enterprise shall revise that estimate, if necessary, if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the enterprise shall revise the estimate to equal the number of equity instruments that ultimately vested. All market vesting conditions and non-vesting conditions shall be taken into account when estimating the fair value of the shares or share options at the measurement date, with no subsequent adjustment irrespective of the outcome.

Shares

26.10 An enterprise shall measure the fair value of shares (and the related goods or services received) using the following three-tier measurement hierarchy:

(a) If an observable market price is available for the equity instruments granted, use that price.

(b) If an observable market price is not available, measure the fair value of equity instruments granted using enterprise-specific observable market data such as

(i) a recent transaction in the enterprise's shares, or

(ii) a recent independent fair valuation of the enterprise or its principal assets.

(c) If an observable market price is not available and obtaining a reliable measurement of fair value under (b) is **impracticable**, indirectly measure the fair value of the shares or share appreciation rights using a valuation method that uses market data to the greatest extent practicable to estimate what the price of those equity instruments would be on the grant date in an arm's length transaction between knowledgeable, willing parties. The enterprise's directors should use their judgement to apply the most appropriate valuation method to determine fair value. Any valuation method used should be consistent with generally accepted valuation methodologies for valuing equity instruments.

Share options and equity-settled share appreciation rights

26.11 An enterprise shall measure the fair value of share options and equity-settled share appreciation rights (and the related goods or services received) using the following three-tier measurement hierarchy:

(a) If an observable market price is available for the equity instruments granted, use that price.

(b) If an observable market price is not available, measure the fair value of share options and share appreciation rights granted using enterprise-specific observable market data such as for a recent transaction in the share options.

(c) If an observable market price is not available and obtaining a reliable measurement of fair value under (b) is impracticable, indirectly measure the fair value of share options or share appreciation rights using an option pricing model. The inputs for the model (such as the weighted average share price, exercise price, expected volatility, option life, expected dividends, and the risk-free interest rate) should use market data to the greatest extent possible. Paragraph 26.10 provides guidance on determining the fair value of the shares used in determining the weighted average share price. The enterprise should derive an estimate of expected volatility consistent with the valuation methodology used to determine the fair value of the shares.

Modifications to the terms and conditions on which equity instruments were granted

26.12 If an enterprise modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition, the enterprise shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:

(a) If the modification increases the fair value of the equity instruments granted (or increases the number of equity instruments granted) measured immediately before and after the modification, the enterprise shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

(b) If the modification reduces the total fair value of the share-based payment arrangement, or apparently is not otherwise beneficial to the employee, the enterprise shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

Cancellations and settlements

26.13 An enterprise shall account for a cancellation or settlement of an equity-settled share-based payment award as an acceleration of vesting, and therefore shall recognise immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

Cash-settled share-based payment transactions

26.14 For cash-settled share-based payment transactions, an enterprise shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the enterprise shall remeasure the fair value of the liability at each **reporting date** and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Share-based payment transactions with cash alternatives

26.15 Some share-based payment transactions give either the enterprise or the counterparty a choice of settling the transaction in cash (or other assets) or by transfer of equity instruments. In such a case, the enterprise shall account for the transaction as a cash-settled share-based payment transaction unless either

(a) the enterprise has a past practice of settling by issuing equity instruments, or

(b) the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument.

In circumstances (a) and (b), the enterprise shall account for the transaction as an equity-settled share-based payment transaction in accordance with paragraphs 26.7–26.13.

Group plans

26.16 If a share-based payment award is granted by a **parent** enterprise to the employees of one or more **subsidiaries** in the group, and the parent presents consolidated financial statements using either the *FRS for LEs*, **IFRS for SMEs** or **full IFRSs**, such subsidiaries are permitted to recognise and measure share-based payment expense (and the related capital contribution by the parent) on the basis of a reasonable allocation of the expense recognised for the group.

Government-mandated plans

26.17 Some foreign **jurisdictions** have programmes established under law by which equity investors (such as employees) are able to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted). This indicates that other consideration has been or will be received (such as past or future employee services). These are equity-settled share-based payment transactions within the scope of this section. The enterprise shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date.

Disclosures

26.18 An enterprise shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:

(a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity).

An enterprise with substantially similar types of share-based payment arrangements may aggregate this information.

(b) the number and weighted average exercise prices of share options for each of the following groups of options:

(i) outstanding at the beginning of the period.

(ii) granted during the period.

(iii) forfeited during the period.

(iv) exercised during the period.

(v) expired during the period.

(vi) outstanding at the end of the period.

(vii) exercisable at the end of the period.

26.19 For equity-settled share-based payment arrangements, an enterprise shall disclose information about how it measured the fair value of goods or services received or the value of the equity instruments granted. If a valuation methodology was used, the enterprise shall disclose the method and its reason for choosing it.

26.20 For cash-settled share-based payment arrangements, an enterprise shall disclose information about how the liability was measured.

26.21 For share-based payment arrangements that were modified during the period, an enterprise shall disclose an explanation of those modifications.

26.22 If the enterprise is part of a group share-based payment plan, and it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).

26.23 An enterprise shall disclose the following information about the effect of share-based payment transactions on the enterprise's profit or loss for the period and on its financial position:

(a) the total expense recognised in profit or loss for the period.

(b) the total carrying amount at the end of the period for liabilities arising from share-based payment transactions.

Comparison with IFRS for SMEs	
Section 26	At present, Lao enterprises do not grant to its employees a right to receive a future cash payment by granting to them a right to shares that are redeemable but this is possible for foreign subsidiaries. These provisions can be applied to establish the consolidated financial statements when Lao parent has one or several foreign subsidiaries.
26.16 26.17	At present, Lao PDR does not have these programmes. But employees of foreign subsidiaries might enjoy these programmes. This paragraph can be applied to establish the consolidated financial statements of a Lao parent when Lao parent has one or several foreign subsidiaries.

Section 27 Impairment of Assets

Objective and scope

27.1 An **impairment loss** occurs when the **carrying amount** of an asset exceeds its **recoverable amount**. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this FRS establish impairment requirements:

(a) **deferred tax assets** (see Section 29 *Income Tax*).

(b) assets arising from **employee benefits** (see Section 28 *Employee Benefits*).

(c) financial assets within the scope of Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments* Issues.

(d) investment property measured at fair value (see Section 16 *Investment Property*).

(e) biological assets related to agricultural activity measured at fair value less estimated costs to sell (see Section 34 *Specialised Activities*).

Impairment of inventories

Selling price less costs to complete and sell

27.2 An enterprise shall assess at each **reporting date** whether any inventories are impaired. The enterprise shall make the assessment by comparing the **carrying amount** of each item of inventory (or group of similar items—see paragraph 27.3) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, the enterprise shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell. That reduction is an impairment loss and it is recognised immediately in profit or loss.

27.3 If it is **impracticable** to determine the selling price less costs to complete and sell for inventories item by item, the enterprise may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the geographical area for the purpose of assessing impairment.

Reversal of impairment

27.4 An enterprise shall make a new assessment of selling price less costs to complete and sell at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the enterprise shall reverse the amount of the impairment (ie the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.

Impairment of assets other than inventories

General principles

27.5 If, and only if, the recoverable amount of an asset is less than its carrying amount, the

enterprise shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss. Paragraphs 27.11–27.20 provide guidance on measuring recoverable amount.

27.6 An enterprise shall recognise an impairment loss immediately in profit or loss.

Indicators of impairment

27.7 An enterprise shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.

27.8 If it is not possible to estimate the recoverable amount of the individual asset, an enterprise shall estimate the recoverable amount of the **cash-generating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows, and sometimes individual assets do not generate cash flows by themselves. An asset's cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

27.9 In assessing whether there is any indication that an asset may be impaired, an enterprise 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 enterprise 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 enterprise 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 materially the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell.

(d) The carrying amount of the net assets of the enterprise is more than the estimated fair value of the enterprise as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the enterprise).

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 enterprise 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. In this context economic performance includes operating results and cash flows.

27.10 If there is an indication that an asset may be impaired, this may indicate that the enterprise should review the remaining useful life, the **depreciation (amortisation)** method or the **residual value** for the asset and adjust it in accordance with the section of this FRS applicable to the asset (eg Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill*), even if no impairment loss is recognised for the asset.

Measuring recoverable amount

27.11 The recoverable amount of an asset or a cash-generating unit is the higher of its **fair value less costs to sell** and its **value in use**. If it is not possible to estimate the recoverable amount of an individual asset, references in paragraphs 27.12–27.20 to an asset should be read as references also to an asset's cash-generating unit.

27.12 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 other amount.

27.13 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.

Fair value less costs to sell

27.14 Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. 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 enterprise could obtain, at the reporting 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 enterprise considers the outcome of recent transactions for similar assets within the same industry.

Value in use

27.15 Value in use is the **present value** of the future cash flows expected to be derived from an asset. This present value calculation 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.

27.16 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 enterprise 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.

(e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the enterprise expects to derive from the asset.

27.17 In measuring value in use, 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.

(c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

The enterprise may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts an enterprise may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

27.18 Estimates of future cash flows shall not include:

(a) cash inflows or outflows from financing activities, or

(b) income tax receipts or payments.

27.19 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 enterprise is not yet committed, or

(b) improving or enhancing the asset's performance.

27.20 The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) 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.

The discount rate (rates) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

Recognising and measuring an impairment loss for a cash-generating unit

27.21 An impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:

(a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and

(b) then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit.

27.22 However, an enterprise shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:

(a) its fair value less costs to sell (if determinable);

(b) its value in use (if determinable); and

(c) zero.

27.23 Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph 27.22 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Additional requirements for impairment of goodwill

27.24 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an enterprise that are independent of the cash flows of other assets. As a consequence, the fair value of goodwill cannot be measured directly. Therefore, the fair value of goodwill must be derived from measurement of the fair value of the cash-generating unit(s) of which the goodwill is a part.

27.25 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 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.

27.26 Part of the recoverable amount of a cash-generating unit is attributable to the non-controlling interest in goodwill. For the purpose of impairment testing a non-wholly-owned cash-generating unit with goodwill, the carrying amount of that unit is notionally adjusted, before being compared with its recoverable amount, by grossing up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This notionally adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

27.27 If goodwill cannot be allocated to individual cash-generating units (or groups of cash-

generating units) on a non-arbitrary basis, then for the purposes of testing goodwill the enterprise shall test the impairment of goodwill by determining the recoverable amount of either (a) or (b):

(a) the acquired enterprise in its entirety, if the goodwill relates to an acquired enterprise that has not been integrated. Integrated means the acquired business has been restructured or dissolved into the reporting enterprise or other subsidiaries.

(b) the entire group of enterprises, excluding any enterprises that have not been integrated, if the goodwill relates to an enterprise that has been integrated.

In applying this paragraph, an enterprise will need to separate goodwill into goodwill relating to enterprises that have been integrated and goodwill relating to enterprises that have not been integrated. Also the enterprise shall follow the requirements for cash-generating units in this section when calculating the recoverable amount of, and allocating impairment losses and reversals to assets belonging to, the acquired enterprise or group of enterprises.

Reversal of an impairment loss

27.28 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

27.29 For all assets other than goodwill, an enterprise shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph 27.9. If any such indication exists, the enterprise shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on:

(a) the recoverable amount of that individual asset (see paragraph 27.30), or

(b) the recoverable amount of the cash-generating unit to which the asset belongs (see paragraph 27.31).

Reversal where recoverable amount was estimated for an individual impaired asset

27.30 When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply:

(a) The enterprise shall estimate the recoverable amount of the asset at the current reporting date.

(b) If the estimated recoverable amount of the asset exceeds its carrying amount, the enterprise shall increase the carrying amount to recoverable amount, subject to the limitation described in (c) below. That increase is a reversal of an impairment loss. The enterprise shall recognise the reversal immediately in profit or loss.

(c) The reversal of an impairment loss shall not increase the carrying amount of the asset 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.

(d) After a reversal of an impairment loss is recognised, the enterprise shall adjust the depreciation (amortisation) charge for the asset 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.

Reversal when recoverable amount was estimated for a cash-generating unit

27.31 When the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset belongs, the following requirements apply:

(a) The enterprise shall estimate the recoverable amount of that cash-generating unit at the current reporting date.

(b) If the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The enterprise shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets, subject to the limitation described in (c) below. Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised immediately in profit or loss.

(c) In allocating a reversal of an impairment loss for a cash-generating unit, the reversal shall not increase the carrying amount of any asset above the lower of

(i) its recoverable amount, and

(ii) 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.

(d) Any excess amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in (c) above shall be allocated pro rata to the other assets of the cash-generating unit, except for goodwill.

(e) After a reversal of an impairment loss is recognised, if applicable, the enterprise shall adjust the depreciation (amortisation) charge for each asset in the cash-generating unit 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.

Disclosures

27.32 An enterprise shall disclose the following for each **class of assets** indicated in paragraph 27.33:

(a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) in the statement income 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 item(s) in the statement income in which those impairment losses are reversed.

27.33 An enterprise shall disclose the information required by paragraph 27.32 for each of the following classes of asset:

(a) inventories.

(b) property, plant and equipment (including investment property accounted for by the cost method).

(c) goodwill.

(d) intangible assets other than goodwill.

(e) investments in associates.

(f) investments in joint ventures.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs

Section 28 Employee Benefits

This section considers economic events which still do not exist in Lao PDR but are supposed to appear in the following years.

Scope of this section

28.1 **Employee benefits** are all forms of consideration given by an enterprise in exchange for service rendered by employees, including directors and management. This section applies to all employee benefits, except for **share-based payment transactions,** which are covered by Section 26 *Share-based Payment. Employee benefits* covered by this section will be one of the following four types:

(a) short-term employee benefits, which are employee benefits (other than **termination benefits**) that are wholly due within twelve months after the end of the period in which the employees render the related service.

(b) **post-employment benefits**, which are employee benefits (other than **termination benefits**) that are payable after the completion of employment.

(c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service.

(d) termination benefits, which are employee benefits payable as a result of either:

(i) an enterprise's decision to terminate an employee's employment before the normal retirement date, or

(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.

28.2 Employee benefits also include share-based payment transactions by which employees receive equity instruments (such as shares or share options) or cash or other assets of the enterprise in amounts that are based on the price of the enterprise's shares or other equity instruments of the enterprise. An enterprise shall apply Section 26 in accounting for share-based payment transactions.

General recognition principle for all employee benefits

28.3 An enterprise shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the enterprise during the **reporting period**:

(a) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid

exceeds the obligation arising from service before the **reporting date**, an enterprise shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless another section of this FRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Short-term employee benefits

Examples

28.4 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) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;

(c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

Measurement of short-term benefits generally

28.5 When an employee has rendered service to an enterprise during the reporting period, the enterprise shall measure the amounts recognised in accordance with paragraph 28.3 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Recognition and measurement—short-term compensated absences

28.6 An enterprise may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate—they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. An enterprise shall recognise the expected cost of **accumulating compensated absences** when the employees render service that increases their entitlement to future compensated absences. The enterprise shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the enterprise expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The enterprise shall present this amount as a **current liability** at the reporting date.

28.7 An enterprise shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The enterprise shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

Recognition—profit-sharing and bonus plans

28.8 An enterprise shall recognise the expected cost of profit-sharing and bonus payments only when:

(a) the enterprise has a present legal or **constructive obligation** to make such payments as a result of past events (this means that the enterprise has no realistic alternative but to make the payments), and

(b) a reliable estimate of the obligation can be made.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

28.9 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 enterprise provides **post-employment benefits** are post-employment benefit plans. An enterprise shall apply this section to all such arrangements whether or not they involve the establishment of a separate enterprise to receive contributions and to pay benefits. This Section must be implemented for contributions to Social Security Organization (SSO). These arrangements arise from actions of the enterprise.

28.10 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their principal terms and conditions.

(a) Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate enterprise (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an enterprise (and perhaps also the employee) to a post-employment benefit plan or to an insurer, together with investment returns arising from the contributions. This is the situation of pension managed by the SSO.

(b) Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the enterprise's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the enterprise. If actuarial or investment experience is worse than expected, the enterprise's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

Multi-employer plans and state plans

28.11 Multi-employer plans and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an enterprise shall account for the plan in accordance with paragraph 28.13 as if it was a defined contribution plan and make the disclosures required by paragraph 28.40.

Insured benefits

28.12 An enterprise may pay insurance premiums to fund a post-employment benefit plan. The enterprise shall treat such a plan as a defined contribution plan unless the enterprise has a legal or constructive obligation either:

(a) to pay the employee benefits directly when they become due, or

(b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a **related party** relationship with the insurer. If the enterprise retains such a legal or constructive obligation, the enterprise shall treat the plan as a defined benefit plan.

Post-employment benefits: defined contribution plans

Recognition and measurement

28.13 An enterprise shall recognise the contribution payable for a period:

(a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an enterprise shall recognise that excess as an asset.

(b) as an expense, unless another section of this FRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment

Post-employment benefits: defined benefit plans

Recognition

28.14 In applying the general recognition principle in paragraph 28.3 to defined benefit plans, an enterprise shall recognise:

(a) a liability for its obligations under defined benefit plans net of plan assets— its **defined benefit liability** (see paragraphs 28.15–28.23).

(b) the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs 28.24–28.27).

Measurement of the defined benefit liability

28.15 An enterprise shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

(a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs 28.16–28.22 provide guidance for measuring this obligation), minus

(b) the fair value at the reporting date of **plan assets** (if any) out of which the obligations are to be settled directly. Paragraphs 11.27–11.32 establish requirements for determining the fair values of those plan assets that are **financial assets**.

Inclusion of both vested and unvested benefits

28.16 The present value of an enterprise's obligations under defined benefit plans at the reporting date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, including benefits that are not yet **vested** (see paragraph 28.26) and including the effects of benefit formulas that give employees greater benefits for later years of service. This requires the enterprise to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula 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 influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible, and selected to lead to the best estimate of the future cash flows that will arise under the plan.

Discounting

28.17 An enterprise shall measure its defined benefit obligation on a discounted **present value** basis. The enterprise shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. In Lao PDR with no deep market in such bonds at the present time, the enterprise shall use the yields (at the reporting date) on government bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.

Actuarial valuation method

28.18 If an enterprise is able, without undue cost or effort, to use the **projected unit credit method** to measure its defined benefit obligation and the related expense, it shall do so. If defined benefits are based on future salaries, the projected unit credit method requires an enterprise to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires an enterprise to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

28.19 If an enterprise is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the enterprise is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees:

(a) ignore estimated future salary increases (ie assume current salaries continue until current employees are expected to begin receiving post-employment benefits);

(b) ignore future service of current employees (ie assume closure of the plan for existing as well as any new employees); and

(c) ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (i.e assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered.

An enterprise that takes advantage of the foregoing measurement simplifications must nonetheless include both vested and unvested benefits in measuring its defined benefit obligation.

28.20 This FRS does not require an enterprise to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.

Plan introductions, changes, curtailments and settlements

28.21 If a defined benefit plan has been introduced or changed in the current period, the enterprise shall increase or decrease its defined benefit liability to reflect the change, and shall recognise the increase (decrease) as an expense (income) in measuring profit or loss in the current period. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated, and the enterprise shall recognise the resulting gain or loss in profit or loss in the current period.

Defined benefit plan asset

28.22 If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An enterprise shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Cost of a defined benefit plan

28.23 An enterprise shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognised partly in profit or loss and partly as an item of other comprehensive income (see paragraph 28.24) unless another section of this FRS requires the cost to be recognised as part of the cost of an asset such as inventories or property,

plant and equipment.

Recognition

28.24 An enterprise is required to recognise all actuarial gains and losses in the period in which they occur. An enterprise shall recognise all actuarial gains and losses in other comprehensive income.

28.25 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:

(a) the change in the defined benefit liability arising from employee service rendered during the reporting period.

(b) interest on the defined benefit obligation during the reporting period.

(c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period.

(d) actuarial gains and losses arising in the reporting period.

(e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph 28.21).

(f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph 28.21).

28.26 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words, they are not yet vested). Employee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an enterprise considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

Reimbursements

28.28 If an enterprise is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the enterprise shall recognise its right to reimbursement as a separate asset. The enterprise shall measure the asset at fair value. In the statement income, the expense relating to a defined benefit plan is presented net of the amount recognised for a reimbursement.

Other long-term employee benefits

28.29 Other long-term employee benefits include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave.

(b) long-service benefits.

(c) long-term disability benefits.

(d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service.

(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

28.30 An enterprise shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:

(a) the present value of the benefit obligation at the reporting date, minus

(b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

An enterprise shall recognise the change in the liability in accordance with paragraph 28.23.

Termination benefits

28.31 An enterprise may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.

Recognition

28.32 Because termination benefits do not provide an enterprise with future economic benefits, an enterprise shall recognise them as an expense in profit or loss immediately.

28.33 When an enterprise recognises termination benefits, the enterprise may also have to account for a curtailment of retirement benefits or other employee benefits.

28.34 An enterprise shall recognise termination benefits as a liability and an expense only when the enterprise is demonstrably committed either:

(a) to terminate the employment of an employee or group of employees before the normal retirement date, or

(b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

28.35 An enterprise is demonstrably committed to a termination only when the enterprise has a detailed formal plan for the termination and is without realistic possibility of withdrawal from the plan.

Measurement

28.36 An enterprise shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. 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.

28.37 When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their discounted present value.

Group plans

28.38 If a parent enterprise provides benefits to the employees of one or more subsidiaries in the group, and the parent presents consolidated financial statements using either the **FRS for LEs**, **IFRS for SMEs** or **full IFRSs**, such subsidiaries are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.

Disclosures

Disclosures about short-term employee benefits

28.39 This section requires specific disclosures about short-term employee benefits.

Disclosures about defined contribution plans

28.40 An enterprise shall disclose the amount recognised in profit or loss as an expense for defined contribution plans. If an enterprise treats a defined benefit multi-employer plan as a defined contribution plan because sufficient information is not available to use defined benefit accounting (see paragraph 28.11) it shall disclose the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the enterprise.

Disclosures about defined benefit plans

28.41 An enterprise shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as a defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead). If an enterprise has more than one defined benefit plan, these disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful:

(a) a general description of the type of plan, including funding policy.

(b) the accounting policy for recognising actuarial gains and losses and the amount of actuarial gains and losses recognised during the period.

(c) a narrative explanation if the enterprise uses any of the simplifications in paragraph 28.19 in measuring its defined benefit obligation.

(d) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date.

(e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes.

(f) 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, showing separately, if applicable:

(i) contributions;

(ii) benefits paid; and

(iii) other changes in plan assets.

(g) the total cost relating to defined benefit plans for the period, disclosing separately the amounts

(i) recognised in profit or loss as an expense, and

(ii) included in the cost of an asset.

(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class constitutes of the fair value of the total plan assets at the reporting date.

(i) the amounts included in the fair value of plan assets for:

(i) each class of the enterprise's own financial instruments, and

(ii) any property occupied by, or other assets used by, the enterprise.

(j) the actual return on plan assets.

(k) the principal actuarial assumptions used, 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 salary increases;

(iv) medical cost trend rates; and

(v) any other material actuarial assumptions used.

The reconciliations in (e) and (f) above need not be presented for prior periods. A subsidiary that recognises and measures employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group (see paragraph 28.38) shall, in its separate financial statements, describe its policy for making the allocation and shall make the disclosures in (a)–(k) above for the plan as a whole.

Disclosures about other long-term benefits

28.42 For each category of other long-term benefits that an enterprise provides to its employees, the enterprise shall disclose the nature of the benefit, the amount of its obligation and the extent of **funding** at the reporting date.

Disclosures about termination benefits

28.43 For each category of termination benefits that an enterprise provides to its employees,

the enterprise shall disclose the nature of the benefit, its accounting policy, and the amount of its obligation and the extent of funding at the reporting date.

28.44 When there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. Section 21 Provisions and Contingencies requires an enterprise to disclose information about its contingent liabilities unless the possibility of an outflow in settlement is remote.

Comparison with IFRS for SMEs	
28.9 28.10 (a) 28.17	Actual law in Lao PDR does not impose arrangements wherey an antity provides post-employement benefits but Lao enterprises can provide these arrangements. Moreover, foreign subsidiaries can be required to have these arrangements (impact on consolidated financial statements). This paragraph is modified to incorporate the Lao Social Security.
28.23 28.24 28.41 (b)	According to IFRs for SMEs, cost of a defined benefit plan is recognised either entirely in profit or loss as expense or partly in profit or loss as an item of other comprehensive income. FRS for LEs obliges to recognise or partly in profit or loss as an item of other comprehensive income because actual are recognised in other comprehensive income (see below §28.24).
28.27	Lao government-sponsored plans do not have effect on amounts of defined benefits. This paragraph is deleted.
28.31	Actual law in Lao PDR does not impose termination benefits but Lao enterprises can provide these. Moreover, foreign subsidiaries can be required to have these (impact on consolidated financial statements).
28.39	IFRS for SMEs does not require specific disclosures about short-term employee benefits. FRS for LEs requires them. This paragraph is modified.

Section 29 Income Tax

This section considers some regulation which still is not defined in Lao PDR but could be used for preparing consolidated financial statements when a parent company has one or several foreign subsidiaries.

Scope of this section

29.1 For the purpose of this FRS, income tax includes all domestic and foreign taxes that are based on taxable **profit**. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting enterprise.

29.2 This section covers accounting for income tax. It requires an enterprise to recognise the current and future tax consequences of transactions and other events that have been recognised in the financial statements. These recognised tax amounts comprise **current tax** and **deferred tax**. Current tax is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is tax payable or recoverable in future periods, generally as a result of the enterprise recovering or settling its **assets** and **liabilities** for their current carrying amount, and the tax effect of the carryforward of currently unused tax losses and tax credits.

Steps in accounting for income tax

29.3 An enterprise shall account for income tax by following the steps (a)–(i) below:

(a) recognise current tax, measured at an amount that includes the effect of the possible outcomes of a review by the tax authorities (paragraphs 29.4–29.8).

(b) identify which assets and liabilities would be expected to affect taxable profit if they were recovered or settled for their present carrying amounts (paragraphs 29.9 and 29.10).

(c) determine the **tax basis** of the following at the end of the **reporting period**:

(i) the assets and liabilities in (b). The tax basis of assets and liabilities is determined by the consequences of the sale of the assets or settlement of liabilities for their present carrying amounts (paragraphs 29.11 and 29.12).

(ii) other items that have a tax basis although they are not recognised as assets or liabilities, ie items recognised as income or expense that will become taxable or tax-deductible in future periods (paragraph 29.13).

(d) compute any **temporary differences**, unused tax losses and unused tax credits (paragraph 29.14).

(e) recognise **deferred tax assets** and **deferred tax liabilities** arising from the temporary differences, unused tax losses and unused tax credits (paragraphs 29.15–29.17).

(f) measure deferred tax assets and liabilities at an amount that includes the effect of the possible outcomes of a review by the tax authorities using tax rates that, on the basis of enacted or substantively enacted tax law at the end of the reporting

period, are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled (paragraphs 29.18– 29.25).

(g) recognise a valuation allowance against deferred tax assets so that the net amount equals the highest amount that is more likely than not to be realised on the basis of current or future taxable profit (paragraphs 29.21 and 29.22).

(h) allocate current and deferred tax to the related components of **profit or loss**, **other comprehensive income** and **equity** (paragraph 29.27).

(i) present and disclose the required information (paragraphs 29.28–29.32).

Recognition and measurement of current tax

29.4 An enterprise shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the enterprise shall recognise the excess as a current tax asset.

29.5 An entity shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

29.6 An enterprise shall measure a current tax liability (asset) at the amounts it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the **reporting date**. An enterprise shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. Paragraphs 29.23–29.25 provide additional measurement guidance.

29.7 An enterprise shall recognise changes in a current tax liability or current tax asset as **tax expense** in profit or loss, except that a change attributable to an item of **income** or **expense** recognised under this FRS as other comprehensive income shall also be recognised in other comprehensive income.

29.8 An enterprise shall include in the amounts recognised in accordance with paragraphs 29.4 and 29.5 the effect of the possible outcomes of a review by the tax authorities, measured in accordance with paragraph 29.24.

Recognition of deferred tax

General recognition principle

29.9 An enterprise shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the difference between the amounts recognised for the enterprise's assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and the carryforward of currently unused tax losses and tax credits.

Assets and liabilities whose recovery or settlement will not affect taxable profit

29.10 If the enterprise expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of

the asset or liability. Therefore, paragraphs 29.11–29.17 apply only to assets and liabilities for which the enterprise expects the recovery or settlement of the carrying amount to affect taxable profit and to other items that have a tax basis.

Tax basis

29.11 An enterprise shall determine the tax basis of an asset, liability or other item in accordance with enacted or substantively enacted law.

29.12 The tax basis determines the amounts that will be included in taxable profit on recovery or settlement of the carrying amount of an asset or liability. Specifically:

(a) the tax basis of an asset equals the amount that would have been deductible in arriving at taxable profit if the carrying amount of the asset had been recovered through sale at the end of the reporting period. If the recovery of the asset through sale does not increase taxable profit, the tax basis shall be deemed to be equal to the carrying amount.

(b) the tax basis of a liability equals its carrying amount less any amounts deductible in determining taxable profit (or plus any amounts included in taxable profit) that would have arisen if the liability had been settled for its carrying amount at the end of the reporting period. In the case of deferred revenue, the tax base of the resulting liability is its carrying amount, less any amount of revenue that will not be taxable in future periods.

29.13 Some items have a tax basis but are not recognised as assets and liabilities. For example, research costs are recognised as an expense when they are incurred but may not be permitted as a deduction in determining taxable profit until a future period. Thus, the carrying amount of the research costs is nil and the tax basis is the amount that will be deducted in future periods. An equity instrument issued by the enterprise may also give rise to deductions in a future period. There is no asset or liability in the statement of financial position, but the tax basis is the amount of the future deductions.

Temporary differences

29.14 Temporary differences arise:

(a) when there is a difference between the carrying amounts and tax bases on the initial recognition of assets and liabilities, or at the time a tax basis is created for those items that have a tax basis but are not recognised as assets and liabilities.

(b) when a difference between the carrying amount and tax basis arises after initial recognition because income or expense is recognised in comprehensive income or equity in one reporting period but is recognised in taxable profit in a different period.

(c) when the tax basis of an asset or liability changes and the change will not be recognised in the asset or liability's carrying amount in any period.

Deferred tax liabilities and assets

29.15 Except as required by paragraph 29.16, an enterprise shall recognise:

(a) a deferred tax liability for all temporary differences that are expected to increase taxable profit in the future.

(b) a deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future.

(c) a deferred tax asset for the carry forward of unused tax losses and unused tax credits.

29.16 The following are exceptions to the requirements of paragraph 29.15:

(a) An enterprise shall not recognise a deferred tax asset or liability for temporary differences associated with unremitted earnings from foreign subsidiaries, branches, associates and joint ventures to the extent that the investment is essentially permanent in duration, unless it is apparent that the temporary difference will reverse in the foreseeable future.

(b) An enterprise shall not recognise a deferred tax liability for a temporary difference associated with the initial recognition of goodwill.

29.17 An enterprise shall recognise changes in a deferred tax liability or deferred tax asset as tax expense in profit or loss, except that a change attributable to an item of income or expense recognised under this FRS as other comprehensive income shall also be recognised in other comprehensive income.

Measurement of deferred tax

Tax rates

29.18 An enterprise shall measure a deferred tax liability (asset) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An enterprise shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.

29.19 When different tax rates apply to different levels of taxable profit, an enterprise shall measure deferred tax expense (income) and related deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled.

29.20 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax expense is measured using the capital gain tax rate.

Valuation allowance

29.21 An enterprise shall recognise a valuation allowance against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

29.22 An enterprise shall review the net carrying amount of a deferred tax asset at each reporting date and shall adjust the valuation allowance to reflect the current assessment of future taxable profits. Such adjustment shall be recognised in profit or loss, except that an adjustment attributable to an item of income or expense recognised in accordance with this FRS as other comprehensive income shall also be recognised in other comprehensive income.

Measurement of both current and deferred tax

29.23 An enterprise shall not discount current or deferred tax assets and liabilities.

29.24 Uncertainty about whether the tax authorities will accept the amounts reported to them by the enterprise affects the amount of current tax and deferred tax. An enterprise shall measure current and deferred tax assets and liabilities using the probability-weighted average amount of all the possible outcomes, assuming that the tax authorities will review the amounts reported and have full knowledge of all relevant information. Changes in the probability-weighted average amount of all possible outcomes shall be based on new information, not a new interpretation by the enterprise of previously available information.

29.25 In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, an entity shall measure current and deferred taxes at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. When the entity recognises a liability to pay a dividend, it shall recognise the resulting current or deferred tax liability (asset), and the related tax expense (income).

Withholding tax on dividends

29.26 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

Presentation

Allocation in comprehensive income and equity

29.27 An enterprise shall recognise tax expense in the same component of total comprehensive income (ie continuing operations, discontinued operations, or other comprehensive income) or equity as the transaction or other event that resulted in the tax expense.

Current/non-current distinction

29.28 Any enterprise shall not classify any deferred tax assets (liabilities) as current assets (liabilities) in its statement of financial position.

Offsetting

29.29 An enterprise shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities, only when it has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realise the asset and

settle the liability simultaneously.

Disclosures

29.30 An enterprise shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

29.31 An enterprise shall disclose separately the major components of tax expense (income). Such components of tax expense (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 (income) relating to the origination and reversal of temporary differences.

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes.

(e) the effect on deferred tax expense arising from a change in the effect of the possible outcomes of a review by the tax authorities (see paragraph 29.24).

(f) adjustments to deferred tax expense arising from a change in the tax status of the enterprise or its shareholders.

(g) any change in the valuation allowance (see paragraphs 29.21 and 29.22).

(h) the amount of tax expense relating to changes in accounting policies and errors (see Section 10 *Accounting Policies, Estimates and Errors*).

29.32 An enterprise shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income.

(b) an explanation of the significant differences in amounts presented in the income statement and amounts reported to tax authorities.

(c) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.

(d) for each type of temporary difference and for each type of unused tax losses and tax credits:

(i) the amount of deferred tax liabilities, deferred tax assets and valuation allowances at the end of the reporting period, and

(ii) an analysis of the change in deferred tax liabilities, deferred tax assets and valuation allowances during the period.

(e) the expiry date, if any, of temporary differences, unused tax losses and unused tax credits.

(f) in the circumstances described in paragraph 29.25, an explanation of the nature

of the potential income tax consequences that would result from the payment of dividends to its shareholders.

Comparison with IFRS for SMEs	
29.1 29.5 29.6 29.25 29.26	At present, Lao tax law does not contains such provisions. These provisions can be applied to establish the consolidated financial statements when Lao parent has one or several foreign subsidiaries.
29.11	IFRS for SMEs specifies that: - if the enterprise files a consolidated tax return, the tax basis is determined by the tax law governing the consolidated tax return; - if the enterprise files separate tax returns for different operations, the tax basis is determined by the tax laws governing each tax return. At present, Lao tax law does not contains such provisions. This paragraph is modified.
29.13	The examples may concern foreign subsidiaries included in the consolidated financial statements of a Lao parent.
29.28	The enterprises present current and non-current assets and current and non-current liabilities (see Section 4 *Statement of financial position*).

Section 30 Foreign Currency Translation

Scope of this section

30.1 An enterprise can conduct foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an enterprise may present its financial statements in a foreign currency when it has been authorized by the Ministry of Finance. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an enterprise and how to translate financial statements into a **presentation currency** other than the **functional currency**. Accounting for **financial instruments** denominated in a foreign currency and hedge accounting of foreign currency items are dealt with in Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*.

Functional currency

30.2 The **functional currency o**f the large enterprises is the Kip unless the enterprise has been authorized by the Ministry of Finance to use a foreign currency.

Reporting foreign currency transactions in the functional currency

Initial recognition

30.6 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an enterprise:

(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.

30.7 An enterprise shall record a foreign currency transaction, 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.

30.8 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this FRS. 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.

Reporting at the end of the subsequent reporting periods

30.9 At the end of each **reporting period**, an enterprise shall:

(a) translate foreign currency monetary items using the closing rate;

(b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and

(c) translate non-monetary items that are measured at fair value in a foreign currency using the exchange rates at the date when the fair value was determined.

30.10 An enterprise shall recognise, in profit or loss in the period in which they arise, 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 periods, except as described in paragraph 30.13.

30.11 When another section of this FRS requires a gain or loss on a non-monetary item to be recognised in **other comprehensive income**, an enterprise shall recognise any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, an enterprise shall recognise any exchange component of that gain or loss in profit or loss.

Net investment in a foreign operation

30.12 An enterprise 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 enterprise's net investment in that foreign operation, and is accounted for in accordance with paragraph 30.13 Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

30.13 Exchange differences arising on a monetary item that forms part of a reporting enterprise's net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting enterprise or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting enterprise (eg consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reported as a **component** of equity. They shall not again be recognised in profit or loss on disposal of the net investment.

Change in functional currency

30.14 When there is a change in an enterprise's functional currency, the enterprise shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

30.16 The effect of a change in functional currency is accounted for prospectively. In other words, an enterprise 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.

Presentation currency in Kip

Translation to the presentation currency

30.17/1 An enterprise that is authorized to have a functional currency other than Kip shall present financial statements into functional currency and into Kip. When a Lao **group** contains individual enterprises with different functional currencies, the items of income

and expense and financial position of each enterprise are expressed in Kip so that consolidated financial statements may be presented; the consolidated financial statements are also presented in foreign currency if the Lao Group is authorized by the Government to do it.

30.17 An enterprise that is authorised by the Government to have a foreign functional currency shall present its financial statements in Kip. The enterprise shall translate its items of income and expense and **financial position** into Kip.

30.18 An enterprise shall translate its results and financial position into Kip:

(a) Assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position.

(b) Income and expenses for each statement of comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions.

(c) All resulting exchange differences shall be recognised in other comprehensive income.

30.19 For practical reasons, an enterprise may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

30.20 The exchange differences referred to in paragraph 30.18(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate, and

(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to the **non-controlling interest** are allocated to, and recognised as part of, non-controlling interest in the consolidated statement of financial position.

Translation of a foreign operation into the investor's presentation currency

30.22 In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the reporting enterprise, the enterprise shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Section 9 *Consolidated and Separate Financial Statements*). 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. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting enterprise to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a reporting

enterprise continues to recognise such an exchange difference in profit or loss or, if it arises from the circumstances described in paragraph 30.13, the enterprise shall classify it as equity.

30.23 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 30.18.

Disclosures

30.24 In paragraphs 30.26 and 30.27, references to 'functional currency' apply, in the case of a group, to the functional currency of the parent.

30.25 An enterprise shall disclose the following:

(a) the amount of exchange differences recognised in profit or loss during the period, except for those arising on financial instruments measured at fair value through profit or loss in accordance with Sections 11 *Basic Financial Instruments* and 12 *Other Financial Instruments Issues*.

(b) the amount of exchange differences arising during the period and classified in a separate component of equity at the end of the period.

30.26 An enterprise shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the Kip, an enterprise the reason for using a different presentation currency.

30.27 When there is a change in the functional currency of either the reporting enterprise or a significant foreign operation, the enterprise shall disclose that fact and the reason for the change in functional currency.

Comparison with IFRS for SMEs	
30.1 - 30.2 30.15 30.17/1 30.17-30.21	The Government may authorize enterprises to have a foreign currency as functional currency and to present financial statements in foreign currency (see Accounting Law art. 7). An authorized enterprise shall also present its financial statements into Kip. These paragraphs are modified.
30.3 to 30.5	The functional currency and the presentation are the KIP except the cases authorized by the Government (see Accounting Law art. 7). These paragraphs are deleted.
30.21	The Kip, functional currency, is not the currency of a hyperinflationary economy. This paragraph is deleted.

Section 31 Hyperinflation

Lao PDR has not hyperinflationary economy. This Section is deleted.

Section 32 Events after the End of the Reporting Period

Scope of this section

32.1 This section defines events after the end of the **reporting period** and sets out principles for recognising, measuring and disclosing those events.

Events after the end of the reporting period defined

32.2 Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and at the latest two months after the end of the reporting period. There are two types of events:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period), and

(b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).

32.3 Events after the end of the reporting period include all events up to the latest two months after the end of the reporting period, even if those events occur after the public announcement of profit or loss of other selected financial information.

Recognition and measurement

Adjusting events after the end of the reporting period

32.4 An enterprise shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.

32.5 The following are examples of adjusting events after the end of the reporting period that require an enterprise to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the end of the reporting period of a court case that confirms that the enterprise had a present obligation at the end of the reporting period. The enterprise adjusts any previously recognised provision related to this court case in accordance with Section 21 *Provisions and Contingencies* or recognises a new provision. The enterprise does not merely disclose a contingent liability. Rather, the settlement provides additional evidence to be considered in determining the provision that should be recognised at the end of the reporting period in accordance with Section 21.

(b) the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period, 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 end of the reporting period usually confirms that a loss existed at the end of the reporting period

on a trade receivable and that the enterprise needs to adjust the **carrying amount** of the trade receivable; and

(ii) the sale of inventories after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.

(c) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

(d) the determination after the end of the reporting period of the amount of profit-sharing or bonus payments, if the enterprise had a legal or **constructive obligation** at the end of the reporting period to make such payments as a result of events before that date (see Section 28 *Employee Benefits*).

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

Non-adjusting events after the end of the reporting period

32.6 An enterprise shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.

32.7 Examples of non-adjusting events after the end of the reporting period include:

(a) a decline in market value of investments between the end of the reporting period 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 end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an enterprise does not adjust the amounts recognised in its financial statements for the investments. Similarly, the enterprise 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 in accordance with paragraph 32.10.

(b) an amount that becomes receivable as a result of a favourable judgement or settlement of a court case after the **reporting date** but before the financial statements are issued. This would be a contingent asset at the reporting date (see paragraph 21.13), and disclosure may be required by paragraph 21.16. However, agreement on the amount of damages for a judgement that was reached before the reporting date, but was not previously recognised because the amount could not be measured reliably, may constitute an adjusting event.

Dividends

32.8 If an enterprise declares dividends to holders of its equity instruments after the end of the reporting period, the enterprise shall not recognise those dividends as a liability at the end of the reporting period. The amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.

Disclosure

Date of preparation of financial statements

32.9 An enterprise shall disclose the date when the financial statements were prepared.

Non-adjusting events after the end of the reporting period

32.10 An enterprise shall disclose the following for each category of non-adjusting event after the end of the reporting period:

(a) the nature of the event, and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the preparation of the financial statements:

(a) a major business combination or disposal of a major subsidiary.

(b) announcement of a plan to discontinue an operation.

(c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government.

(d) the destruction of a major production plant by a fire.

(e) announcement, or commencement of the implementation, of a major restructuring.

(f) issues or repurchases of an enterprise's debt or equity instruments.

(g) abnormally large changes in asset prices or foreign exchange rates.

(h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities.

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees.

(j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

Comparison with IFRS for SMEs	
32.2 32.3 32.9	In implementation of article 45-2 of Law on accounting, the enterprises shall prepare the financial statements within two months after the closing date. This paragraph is modified.

Section 33 Related Party Disclosures

Scope of this section

33.1 This section requires an enterprise to include in its financial statements the disclosures necessary to draw attention to the possibility that its **financial position** and profit or loss have been affected by the existence of **related parties** and by transactions and outstanding balances with such parties.

Related party defined

33.2 A related party is a person or enterprise that is related to the enterprise that is preparing its financial statements (the reporting enterprise).

(a) A person or a **close member of that person's family** is related to a reporting enterprise if that person:

(i) is a member of the key management personnel of the reporting enterprise or of a parent of the reporting enterprise;

(ii) has control over the reporting enterprise; or

(iii) has joint control or significant influence over the reporting enterprise or has significant voting power in it.

(b) An enterprise is related to a reporting enterprise if any of the following conditions applies:

(i) the enterprise and the reporting enterprise are members of the same **group** (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) either enterprise is an associate or joint venture of the other enterprise (or of a member of a group of which the other enterprise is a member).

(iii) both enterprises are joint ventures of a third enterprise.

(iv) either enterprise is a joint venture of a third enterprise and the other enterprise is an associate of the third enterprise.

(v) the enterprise is a post-employment benefit plan for the benefit of employees of either the reporting enterprise or an enterprise related to the reporting enterprise. If the reporting enterprise is itself such a plan, the sponsoring employers are also related to the plan.

(vi) the enterprise is controlled or jointly controlled by a person identified in(a).

(vii) a person identified in (a)(i) has significant voting power in the enterprise.

(viii) a person identified in (a)(ii) has significant influence over the enterprise or significant voting power in it.

(ix) a person or a close member of that person's family has both significant influence over the enterprise or significant voting power in it and joint control over the reporting enterprise.

(x) a member of the key management personnel of the enterprise or of a parent of the enterprise, or a close member of that member's family, has control or joint control over the reporting enterprise or has significant voting power in it.

33.3 In considering each possible related party relationship, an enterprise shall assess the substance of the relationship and not merely the legal form.

33.4 In the context of this FRS, the following are not necessarily related parties:

(a) two enterprises simply because they have a director or other member of key management personnel in common.

(b) two **venturers** simply because they share **joint control** over a joint venture.

(c) any of the following simply by virtue of their normal dealings with an enterprise (even though they may affect the freedom of action of an enterprise or participate in its decision-making process):

(i) providers of finance.

(ii) trade unions.

(iii) public utilities.

(iv) government departments and agencies.

(d) a customer, supplier, franchisor, distributor or general agent with whom an enterprise transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

Disclosure of parent-subsidiary relationships

33.5 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been related party transactions. An enterprise shall disclose the name of its parent and, if different, the ultimate controlling party.

Disclosure of key management personnel compensation

33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the enterprise, directly or indirectly, including any director (whether executive or otherwise) of that enterprise. Compensation includes all employee benefits (as defined in Section 28 *Employee Benefits*)–including those in the form of share-based payment (see Section 26 *Share-based Payment*). Employee benefits include all forms of consideration paid, payable or provided by the enterprise, or on behalf of the enterprise (eg by its parent or by a shareholder), in exchange for services rendered to the enterprise. It also includes such consideration paid on behalf of a parent of the enterprise in respect of goods or services

provided to the enterprise.

33.7 An enterprise shall disclose key management personnel compensation in total.

Disclosure of related party transactions

33.8 A related party transaction is a transfer of resources, services or obligations between a reporting enterprise and a related party, regardless of whether a price is charged. Examples of related party transactions that are common include, but are not limited to:

(a) transactions between an enterprise and its principal owner(s).

(b) transactions between an enterprise and another enterprise when both enterprises are under the common control of a single enterprise or person.

(c) transactions in which an enterprise or person that controls the reporting enterprise incurs expenses directly that otherwise would have been borne by the reporting enterprise.

33.9 If an enterprise has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 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:

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and

(ii) details of any guarantees given or received.

(c) provisions for uncollectible receivables related to the amount of outstanding balances.

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include purchases, sales, or transfers of goods or services; leases; guarantees; and settlements by the enterprise on behalf of the related party or vice versa.

33.10 An enterprise shall make the disclosures required by paragraph 33.9 separately for each of the following categories:

(a) enterprises with control, joint control or significant influence over the enterprise.

(b) enterprises over which the enterprise has control, joint control or significant influence.

(c) key management personnel of the enterprise or its parent (in the aggregate).

(d) other related parties.

33.11 An enterprise is exempt from the disclosure requirements of paragraph 33.9 in relation to:

(a) Lao Government (the central government, the provinces, the cities, the districts, les municipalities, the villages) or an foreign state (a national, regional or local government) that has control, joint control or significant influence over the reporting enterprise, and

(b) another enterprise that is a related party because the same state has control, joint control or significant influence over both the reporting enterprise and the other enterprise.

However, the enterprise must still disclose a parent-subsidiary relationship as required by paragraph 33.5.

33.12 The following are examples of transactions that shall be disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished).

(b) purchases or sales of property and other assets.

(c) rendering or 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 or collateral.

(i) settlement of liabilities on behalf of the enterprise or by the enterprise on behalf of another party.

(j) participation by a parent or subsidiary in a defined benefit plan that shares risks between group enterprises.

33.13 An enterprise shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

33.14 An enterprise may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the enterprise.

Comparison with IFRS for SMEs	
33.5	In implementation of article 49 of Law on accounting "individuals, legal enterprises and organizations can access to financial data of enterprises through concerned authorities". This is modified.
33.11 (a)	This paragraph quotes the Lao public authorities.

Section 34 Specialised Activities

Scope of this section

34.1 This section provides guidance on financial reporting by the enterprises involved in three types of specialised activities—agriculture, extractive activities, and service concessions.

Agriculture

34.2 An enterprise using this FRS that is engaged in **agricultural activity** shall determine its accounting policy for each class of its **biological assets** as follows:

(a) The enterprise shall use the **fair value** model in paragraphs 34.4–34.7 for those biological assets for which fair value is readily determinable without undue cost or effort.

(b) The enterprise shall use the cost model in paragraphs 34.8–34.10 for all other biological assets.

Recognition

34.3 An enterprise shall recognise a biological asset or **agricultural produce** when, and only when:

(a) the enterprise 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 enterprise; and

(c) the fair value or cost of the asset can be measured reliably without undue cost or effort.

Measurement – fair value model

34.4 An enterprise shall measure a biological asset on initial recognition and at each **reporting date** at its fair value less costs to sell. Changes in fair value less costs to sell shall be recognised in profit or loss.

34.5 Agricultural produce harvested from an enterprise's biological assets 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 Section 13 Inventories or another applicable section of this FRS.

34.6 In determining fair value, an enterprise shall consider the following:

(a) If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an enterprise has access to different active markets, the enterprise shall use the price existing in the market that it expects to use.

(b) If an active market does not exist, an enterprise uses one or more of the following,

when available, in determining fair value:

(i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;

(ii) market prices for similar assets with adjustment to reflect differences; and

(iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

(c) In some cases, the information sources listed in (a) or (b) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An enterprise considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.

(d) In some circumstances, fair value may be readily determinable without undue cost or effort even though market determined prices or values are not available for a biological asset in its present condition. An enterprise shall consider whether the present value of expected net cash flows from the asset discounted at a current market determined rate results in a reliable measure of fair value.

Disclosures – fair value model

34.7 An enterprise shall disclose the following with respect to its biological assets measured at fair value:

(a) a description of each class of its biological assets.

(b) the methods and significant assumptions applied in determining the fair value of each category of agricultural produce at the point of harvest and each category of biological assets.

(c) a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:

(i) the gain or loss arising from changes in fair value less costs to sell.

(ii) increases resulting from purchases.

(iii) decreases resulting from harvest.

(iv) increases resulting from business combinations.

(v) net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting enterprise.

(vi) other changes.

Measurement – cost model

34.8 The enterprise shall measure at cost less any accumulated **depreciation** and any

accumulated **impairment** losses those biological assets whose fair value is not readily determinable without undue cost or effort.

34.9 The enterprise shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this FRS.

Disclosures – cost model

34.10 An enterprise shall disclose the following with respect to its biological assets measured using the cost model:

(a) a description of each class of its biological assets.

(b) an explanation of why fair value cannot be measured reliably.

(c) the depreciation method used.

(d) the useful lives or the depreciation rates used.

(e) the gross **carrying amount** and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Extractive activities

34.11 An enterprise using this FRS that is engaged in the exploration for, evaluation or extraction of mineral resources (extractive activities) shall account for expenditure on the acquisition or development of tangible or intangible assets for use in extractive activities by applying Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill*, respectively. When an enterprise has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

Service concession arrangements

34.12 A service concession arrangement is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

34.13 There are two principal categories of service concession arrangements:

(a) In one, the operator receives a financial asset—an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

(b) In the other, the operator receives an intangible asset—a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

Accounting – financial asset model

34.14 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* in accounting for the financial asset.

Accounting – intangible asset model

34.15 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.

Operating revenue

34.16 The operator of a service concession arrangement shall recognise, measure and disclose revenue in accordance with Section 23 *Revenue* for the services it performs.

Comparison with IFRS for SMEs
FRS for LEs is like IFRS for SMEs.

Section 35 Transition to the FRS for LEs

Scope of this section

35.1 This section applies to a **first-time adopter of the *FRS for LEs,*** regardless of whether its previous accounting framework was **General Accounting Plan**, **full IFRSs, IFRS for SMEs, FRS for SMES, Guidance for microenterprises** or another framework such as the Lao income tax basis.

35.2 An enterprise can be a first-time adopter of the *FRS for LEs* only once. If an enterprise using the *FRS for LEs* stops using it for one or more **reporting periods** and then is required, or chooses, to adopt it again later, the special exemptions, simplifications and other requirements in this section do not apply to the re-adoption.

First-time adoption

35.3 A first-time adopter of the *FRS for LEs* shall apply this section in its first **financial statements** that conform to this FRS.

35.4 An enterprise's first financial statements that conform to this FRS are the first annual financial statements in which the enterprise makes an explicit and unreserved statement in those financial statements of compliance with the *FRS for LEs*. Financial statements prepared in accordance with this FRS are an enterprise's first such financial statements if, for example, the enterprise:

(a) did not present financial statements for previous periods;

(b) presented its most recent previous financial statements under requirements accepted in Lao PDR that are not consistent with this FRS in all respects; or

(c) presented its most recent previous financial statements in conformity with full IFRSs, IFRS for SMEs, FRS for SMEs, Guidance for microenterprises.

35.5 Paragraph 3.17 of this FRS defines a complete set of financial statements.

35.6 Paragraph 3.14 requires an enterprise to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An enterprise may present comparative information in respect of more than one comparable prior period. Therefore, an entity's **date of transition** to the *FRS for LEs* is the beginning of the earliest period for which the entity presents full comparative information in accordance with this FRS in its first financial statements that conform to this FRS.

Accordingly, on first-time adoption of the *FRS for LEs* in Lao PDR, only enterprises which presented their most recent previous financial statements in conformity with full IFRSs or IFRS for SMEs shall produce comparative information.

Later, an enterprise which presented its most recent previous financial statements in conformity with Guidance for microenterprises does not have to produce comparative information.

Procedures for preparing financial statements at the date of transition

35.7 Except as provided in paragraphs 35.9–35.11, an enterprise shall, in its opening statement of financial position as of its date of transition to the *FRS for LEs* (ie the beginning of the earliest period presented):

(a) recognise all assets and liabilities whose recognition is required by the *FRS for "LEs;*

(b) not recognise items as assets or liabilities if this FRS does not permit such recognition;

(c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under this FRS; and

(d) apply this FRS in measuring all recognised assets and liabilities.

35.8 The **accounting policies** that an enterprise uses in its opening statement of financial position under this FRS may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this FRS. Therefore, an enterprise shall recognise those adjustments directly in retained earnings at the date of transition to this FRS.

35.9 On first-time adoption of this FRS, an enterprise shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) **derecognition** of financial assets and financial liabilities. Financial assets and liabilities derecognised under an enterprise's previous accounting framework before the date of transition should not be recognised upon adoption of this *FRS.* Conversely, for financial assets and liabilities that would have been derecognised under this *FRS* in a transaction that took place before the date of transition, but that were not derecognised under an enterprise's previous accounting framework, an enterprise may choose (a) to derecognise them on adoption of this *FRS* or (b) to continue to recognise them until disposed of or settled.

(b) hedge accounting. An enterprise shall not change its hedge accounting before the date of transition to this *FRS* for the hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the enterprise shall follow the hedge accounting requirements of Section 12 *Other Financial Instruments Issues,* including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Section 12.

(c) accounting estimates.

(d) **discontinued operations.**

(e) measuring **non-controlling interests.** The requirements of paragraph 5.6 to allocate profit or loss and total comprehensive income between on-controlling interest and **owners** of the parent shall be applied prospectively from the date of transition to this *FRS* (or from such earlier date as this FRS is applied to restate business

combinations - see paragraph 35.10).

35.10 An enterprise may use one or more of the following exemptions in preparing its first financial statements that conform to this FRS:

(a) **Business combinations.** A first-time adopter may elect not to apply Section 19 *Business Combinations and Goodwill* to business combinations that were effected before the date of transition to this FRS. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations.

(b) **Share-based payment transactions.** A first-time adopter is not required to apply Section 26 *Share-based Payment* to equity instruments that were granted before the date of transition to this FRS, or to liabilities arising from share-based payment transactions that were settled before the date of transition to this FRS.

(c) **Fair value as deemed cost.** A first-time adopter may elect to measure an item of property, plant and equipment, an investment property, or an intangible asset on the date of transition to this FRS at its fair value and use that fair value as its deemed cost at that date.

(d) **Revaluation as deemed cost.** A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment, an investment property, or an intangible asset at, or before, the date of transition to this FRS as its deemed cost at the revaluation date.

(e) **Cumulative translation differences.** Section 30 *Foreign Currency Translation* requires an enterprise to classify some translation differences as a separate component of equity. A first-time adopter may elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to the *FRS for LEs* (ie a 'fresh start').

(f) **Separate financial statements.** Paragraph 9.26 requires to account for investments in subsidiaries, associates, and jointly controlled enterprises either:

(i) at cost less impairment, or

(ii) at **fair value** with changes in fair value recognised in profit or loss.

If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts in its separate opening statement of financial position prepared in accordance with this FRS:

(g) cost determined in accordance with Section 9 *Consolidated and Separate Financial Statements,* or

(ii) deemed cost, which shall be either fair value at the date of transition to the *FRS for LEs* or previous GAAP carrying amount on that date.

(g) **Compound financial instruments.** Paragraph 22.13 requires an enterprise to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this FRS.

(h) **Deferred income tax.** A first-time adopter is not required to recognise, at the date of transition to this FRS, **deferred tax assets** or **deferred tax liabilities** relating to differences between the **tax basis** and the **carrying amount** of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort.

(i) **Service concession arrangements.** A first-time adopter is not required to apply paragraphs 34.12–34.16 to service concession arrangements entered into before the date of transition to this FRS.

(j) **Extractive activities.** A first-time adopter using full cost accounting under previous GAAP may elect to measure oil and gas assets (those used in the exploration, evaluation, development or production of oil and gas) on the date of transition to the *FRS for LEs* at the amount determined under the enterprise's previous GAAP. The enterprise shall test those assets for impairment at the date of transition to this FRS in accordance with Section 27 *Impairment of Assets*.

(k) **Arrangements containing a lease.** A first-time adopter may elect to determine whether an arrangement existing at the date of transition to the *FRS for LEs* contains a lease (see paragraph 20.3) on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into.

(l) **Decommissioning liabilities included in the cost of property, plant and equipment.** Paragraph 17.10(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to the *FRS for SMEs,* rather than on the date(s) when the obligation initially arose.

35.11 If it is **impracticable** for an enterprise to restate the opening statement of financial position at the date of transition for one or more of the adjustments required by paragraph 35.7, the enterprise shall apply paragraphs 35.7–35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall identify the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform to this FRS. If it is impracticable for an enterprise to provide any disclosures required by this FRS for any period before the period in which it prepares its first financial statements that conform to this FRS, the omission shall be disclosed.

Disclosures

Explanation of transition to the *FRS for LEs*

35.12 An enterprise shall explain how the transition from its previous financial reporting framework to this FRS affected its reported **financial position,** financial **performance** and **cash flows.**

Reconciliations

35.13 To comply with paragraph 35.12, an enterprise's first financial statements prepared using this FRS shall include:

(a) a description of the nature of each change in accounting policy.

(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this FRS for both of the following dates:

(i) the date of transition to this FRS, and

(ii) the end of the latest period presented in the enterprise's most recent annual financial statements determined in accordance with its previous financial reporting framework.

(c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the enterprise's most recent annual financial statements to its profit or loss determined in accordance with this FRS for the same period.

35.14 If an enterprise becomes aware of errors made under its previous financial reporting framework, the reconciliations required by paragraph 35.13(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.

35.15 If an enterprise did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this FRS.

Comparison with IFRS for SMEs	
35.1	This paragraph shall be in the Lao context. At present, enterprises implement to produce their financial statements to the General Accounting Plan, or tax rules or another framework (full IRS, IFRS for SMEs, U.S. GAAP, ...). After the first implementation of the accounting reform in Lao PDR, an enterprise may change the classification category and be required to prepare its financial statements in accordance with this FRS. This paragraph is modified.
35.4 (a)	This situation does not be after the implementation of the Lao accounting reform except for microenterprises that apply Guidance for microenterprises.
35.4 (b) 35.4 (c)	Requirements accepted in Lao PDR are, for example: - before the implementation of the accounting reform in Lao PDR, General Accounting Plan or another framework such as the Lao income tax basis; - after the implementation of the accounting reform in Lao PDR, LFRs for SMEs, Guidance for micro enterprises, full IFRS. These paragraphs are modified.
35.6	When FRS for LEs is implemented the first time in Lao PDR, this FRS requires enterprises which presented their most recent previous financial statements in conformity with full IFRSs or IFRS for SMEs to disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. Other enterprises are exempted from this obligation. Post the first implementation of FRS for LEs in Lao PDR, all enterprises are required to disclose comparative information except enterprises which presented their most recent previous financial statements in conformity with Guidance for microenterprises. This paragraph is modified.
35.10 (f)	All Lao enterprises are required to present separate financial statements. This paragraph is modified.

Glossary of terms

accounting policies	The specific principles, bases, conventions, rules and practices applied by an enterprise in preparing and presenting financial statements.
accrual 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.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
agriculture activity	The management by an enterprise of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the enterprise's biological assets.
amortised cost of a financial asset or financial liability	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 (directly or through the use of an allowance account) for impairment or uncollectibility.
asset	A resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.
associate	An enterprise, including an unincorporated enterprise such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.
biological asset	A living animal or plant.

borrowing costs	Interest and other costs incurred by an enterprise in connection with the borrowing of funds.
business	An integrated set of activities and assets conducted and managed for the purpose of providing: (a) a return to investors, or (b) lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.
business combinations	The bringing together of separate enterprises or businesses into one reporting enterprise.
carrying amount	The amount at which an asset or liability is recognised in the statement of financial position.
cash	Cash on hand and demand deposits.
cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating unit	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.
cash-settled share-based payment transaction	A share-based payment transaction in which the enterprise acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the enterprise's shares or other equity instruments of the enterprise.
changes in accounting estimates	An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of

an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

class of asset — A grouping of assets of a similar nature and use in an enterprise's operations.

combined financial statements — The financial statements of two or more entities controlled by a single investor.

component of an enterprise — Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise.

compound financial instrument — A financial instrument that, from the issuer's perspective contains both a liability and an equity element.

consolidated financial statements — The financial statements of a parent and its subsidiaries presented as those of a single economic enterprise.

construction contract — A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

constructive obligation — An obligation that derives from an enterprise's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the enterprise has indicated to other parties that it will accept certain responsibilities, and

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

contingent asset — 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 enterprise.

contingent liability

(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 enterprise, or
(b) a present obligation that arises from past events but is not recognised because:
  (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  (ii) the amount of the obligation cannot be measured with sufficient reliability.

control (of an enterprise)

The power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

current tax

The amount of income tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past reporting periods.

date of transition to the *FRS for LEs*

The beginning of the earliest period for which an enterprise presents full comparative information under the *FRS for LEs* in its first financial statements that comply with the *FRS for LEs*.

deferred tax

Income tax payable (recoverable) in respect of the taxable profit (tax loss) as a result of transactions or events.

deferred tax assets

The amounts of income tax recoverable in future reporting periods in respect of:
(a) deductible temporary differences;
(b) the carryforward of unused tax losses; and
(c) the carryforward of unused tax credits.

deferred tax liabilities

The amounts of income tax payable in future reporting periods in respect of temporary differences.

defined benefit liability

The present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations

are to be settled directly.

defined benefit obligation (present value of)	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.
defined benefit plans defined contribution plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an enterprise pays fixed contributions into a separate enterprise (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of a previously recognised asset or liability from an enterprise's statement of financial position.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
discontinued operation	A component of an enterprise that either has been disposed of, or is held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or

(c) is a subsidiary acquired exclusively with a view to resale.

effective interest method A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

effective interest rate 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.

effectiveness of a hedge 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.

employee benefits All forms of consideration given by an enterprise in exchange for service rendered by employees.

equity The residual interest in the assets of the enterprise after deducting all its liabilities.

equity-settled share-based payment transaction A share-based payment transaction in which the enterprise receives goods or services as consideration for equity instruments of the enterprise (including shares or share options)

errors Omissions from, and misstatements in, the enterprise's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue, and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

expenses Decreases in economic benefits during the reporting 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 investors.

fair presentation

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.

fair value

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

fair value less costs to sell

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

finance lease

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

financial assets

Any asset that is:

(a) cash;

(b) an equity instrument of another enterprise;

(c) a contractual right:

  (i) to receive cash or another financial asset from another enterprise, or

  (ii) to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the enterprise; or

(d) a contract that will or may be settled in the enterprise's own equity instruments and:

  (i) under which the enterprise is or may be obliged to receive a variable number of the enterprise's own equity instruments, or

  (ii) 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 enterprise's own equity instruments. For this purpose the enterprise's own equity

instruments do not include instruments that are themselves contracts for the future receipt or delivery of the enterprise's own equity instruments.

financial instrument

A contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

financial liabilities

Any liability that is:

(a) a contractual obligation:
  (i) to deliver cash or another financial asset to another enterprise, or
  (ii) to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the enterprise; or

(b) a contract that will or may be settled in the enterprise's own equity instruments and:
  (i) under which the enterprise is or may be obliged to deliver a variable number of the enterprise's own equity instruments, or
  (ii) 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 enterprise's own equity instruments. For this purpose the enterprise's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the enterprise's own equity instruments.

financial position

The relationship of the assets, liabilities and equity of an enterprise as reported in the statement of financial position.

Financial Reporting Standards for non-Public Interest Enterprises

Financial Reporting Standards (FRS) adapted from International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) to be suitable for non-public interest enterprises which include the large-sized enterprises (LEs) and the small and medium-sized enterprises (SMEs).

financial statements

Structured representation of the financial position, financial performance and cash flows of an enterprise.

financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the enterprise.
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
first-time adopter of the *FRS for LEs*	An enterprise that presents its first annual financial statements that conform to the *FRS for LEs*.
forecast transaction	An uncommitted but anticipated future transaction.
full IFRSs	International Financial Reporting Standards (IFRSs) other than the *IFRS for SMEs*.
functional currency	The currency of the primary economic environment in which the enterprise operates.
funding (of post-employment benefits)	Contributions by an enterprise, and sometimes its employees, into an enterprise, or fund, that is legally separate from the reporting enterprise and from which the employee benefits are paid.
gains	Increases in economic benefits that meet the definition of income but are not revenue.
general purpose financial statements	Financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
going concern	An enterprise is a going concern unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so.
goodwill	Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
government grant	Assistance by government in the form of transfers of resources to an enterprise in return for past or future

compliance with certain conditions relating to the operating activities of the enterprise.

grant date

The date at which the enterprise and another party (including an employee) agree to a share-based payment arrangement, being when the enterprise and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the enterprise confers on the counterparty the right to cash, other assets, or equity instruments of the enterprise, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

gross investment in a lease

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.

group

A parent and all its subsidiaries.

hedged item

For the purpose of hedge accounting under Section 12 of this FRS, a hedged item is:

(a) interest rate risk of a debt instrument measured at amortised cost;
(b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;
(c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or
(d) foreign exchange risk in a net investment in a foreign operation.

hedging instrument

For the purpose of hedge accounting under Section 12 of this FRS, a hedging instrument is a financial instrument that meets all of the following terms and conditions:

(a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 12.17 that is

designated as the hedged risk.

(b) it involves a party external to the reporting enterprise (ie external to the group, segment or individual enterprise being reported on).

(c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item.

(d) it has a specified maturity date not later than
   (i) the maturity of the financial instrument being hedged,
   (ii) the expected settlement of the commodity purchase or sale commitment, or
   (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.

(e) it has no prepayment, early termination or extension features.

highly probable — Significantly more likely than probable.

IFRS for SMEs — International Financial Standards for Small and Medium-sized Enterprises approved by International Standards Board in July 2009.

impairment loss — The amount by which the carrying amount of an asset exceeds
(a) in the case of inventories, its selling price less costs to complete and sell or
(b) in the case of other assets, its recoverable amount.

impracticable — Applying a requirement is impracticable when the enterprise cannot apply it after making every reasonable effort to do so.

imputed rate of interest — The more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating, or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the good or services.

income	Increases in economic benefits during the reporting 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 investors.
income statement	Financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.
income tax	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting enterprise.
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
intangible assets	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: (a) is separable, ie is capable of being separated or divided from the enterprise and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the enterprise or from other rights and obligations.
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of : (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and

(ii) any initial direct costs of the lessor.

interim financial report — A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.

interim period — A financial reporting period shorter than a full financial year.

International Financial Reporting Standards IFRSs) — Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

(a) International Financial Reporting Standards;

(b) International Accounting Standards; and

(c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

intrinsic value — The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of 1 500 000 Kips, on a share with a fair value of 2 000 000 Kips, has an intrinsic value of CU 500 000 Kips.

inventories — Assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

investing activities — The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

investment property — Property (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: (a) use in the production or supply of goods or services or for administrative purposes, or (b) sale in the ordinary course of business.
joint control	The contractually agreed sharing of control over an economic activity. It exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
joint venture	A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled enterprises.
jointly controlled enterprise	A joint venture that involves the establishment of a corporation, partnership or other enterprise in which each venturer has an interest. The enterprise operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the enterprise.
large-sized enterprises	Non-public interest enterprises which exceed criteria of SMEs fixed by the regulation, and non-public interest enterprises which control one or several subsidiaries or/and enter into complex financial instruments.
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
lessee's incremental borrowing rate of interest	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 incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
FRS, FRS for LEs, FRS for SMEs	See **Lao Financial Reporting Standards for non-public interest enterprises**

liability	A present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.
material	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.
measurement	The process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the statement of financial position and statement of comprehensive income.
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
multi-employer (benefit) plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) pool the assets contributed by various enterprises that are not under common control, and (b) use those assets to provide benefits to employees of more than one enterprise, on the basis that contribution and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned.
net investment in the lease	The gross investment in a lease discounted at the interest rate implicit in the lease.
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.

Non public interest enterprises (Non PIEs)	Enterprises which are of non- significant public interest relevance, non-listed in stock exchange, non-hold and non-manage assets in fiduciary capacity for individual, legal entity and organization as its primary business and enterprises in which have a small number of shareholder and the majority are small and medium sized enterprises.
notes to financial statements	Notes contain information in addition to that presented in the statement of financial position, statement of comprehensive income, income statement (if presented), combined statement of income and retained earnings (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
notional amount	The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.
objective of financial statements	To provide information about the financial position, performance and cash flows of an enterprise that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
onerous contracts	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
operating activities	The principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.
operating segment	An operating segment is a component of an enterprise:

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 enterprise);

b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

c) for which discrete financial information is available.

other comprehensive income — Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by this FRS.

owners — Holders of instruments classified as equity.

parent — An enterprise that has one or more subsidiaries.

performance — The relationship of the income and expenses of an enterprise, as reported in the statement of comprehensive income.

PIEs — See public interest enterprises

plan assets (of an employee benefit plan)

(a) Assets held by a long-term employee benefit fund, and

(b) qualifying insurance policies.

post-employment benefits — Employee benefits (other than termination benefits) that are payable after the completion of employment.

post-employment benefit plans — Formal or informal arrangements under which an enterprise provides post-employment benefits for one or more employees.

present value — A current estimate of the present discounted value of the future net cash flows in the normal course of business.

presentation currency	The currency in which the financial statements are presented.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income.
project unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro rated on service or as the benefit/years of service method).
property, plant and equipment	Tangible assets that: (a) are held for use in the production or supply of goods or services, for rental to others, for investment, or for administrative purposes, and (b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provisions	A liability of uncertain timing or amount.
prudence	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.
public accountability	Accountability to those existing and potential resource providers and others external to the enterprise who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs. An enterprise has public accountability if: (a) its debt or equity instruments are traded in a public

market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Public interest enterprises (PIEs)

Enterprises which are significant public interest relevance because of the nature of their business, their size or their number of employees of businesses, listed enterprises and enterprises holding and managing assets in fiduciary capacity for individual, legal enterprise and organization such as banks, insurance companies, securities company and other financial institutions that have a wide range of activities.

The Ministry of Finance may determine other enterprises as public interest enterprises.

publicly traded(debt or equity instruments)

Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the counter market, including local and regional markets).

recognition

The process of incorporating in the statement of financial position or statement of comprehensive income an item that meets the definition of an element and that satisfies the following criteria:

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

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

recoverable amount

The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.

related party

A related party is a person or enterprise that is related to the enterprise that is preparing its financial statements (the

reporting enterprise).

(a) A person or a **close member of that person's family** is related to a reporting enterprise if that person:

(i) is a member of the key management personnel of the reporting enterprise or of a parent of the reporting enterprise;

(ii) has control over the reporting enterprise; or

(iii) has joint control or significant influence over the reporting enterprise or has significant voting power in it.

(b) An enterprise is related to a reporting enterprise if any of the following conditions applies:

(i) the enterprise and the reporting enterprise are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) either enterprise is an associate or joint venture of the other enterprise (or of a member of a group of which the other enterprise is a member).

(iii) both enterprises are joint ventures of a third enterprise.

(iv) either enterprise is a joint venture of a third enterprise and the other enterprise is an associate of the third enterprise.

(v) the enterprise is a post-employment benefit plan for the benefit of employees of either the reporting enterprise or an enterprise related to the reporting enterprise. If the reporting enterprise is itself such a plan, the sponsoring employers are also related to the plan.

(vi) the enterprise is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant voting power in the enterprise.

(viii) a person identified in (a)(ii) has significant influence over the enterprise or significant voting power in it.

(ix) a person or a close member of that person's family has both significant influence over the enterprise or

significant voting power in it and joint control over the reporting enterprise.

(x) a member of the key management personnel of the enterprise or of a parent of the enterprise, or a close member of that member's family, has control or joint control over the reporting enterprise or has significant voting power in it.

related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
relevance	The quality of information that allows it to influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.
reliability	The quality of information that makes it free from material error and bias and represent faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting date	The end of the latest period covered by financial statements orby an interim financial report.
reporting period	The period covered by financial statements or by an interim financial report.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	The estimated amount that an enterprise would currently obtain from disposal of an 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.
retrospective applications (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
separate financial statements	The financial statements of a single enterprise.
service concession arrangement	An arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.
severe hyperinflation	The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics: (a) a reliable general price index is not available to all entities with transactions and balances in the currency. (b) exchangeability between the currency and a relatively stable foreign currency does not exist.
share-based payment transaction	A transaction in which the enterprise receives goods or services (including employee services) as consideration for equity instruments of the enterprise (including shares or share options), or acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of the enterprise's shares or other equity instruments of the enterprise.
small and medium-sized enterprises	All enterprises other than public interest enterprises which do not exceed criteria fixed by the regulation, and enterprises other than public interest enterprises which do not control one or several subsidiaries or/and do not enter into complex financial instruments.
state	The Lao People's Democratic Republic (the government, the provinces, the cities, the districts, les municipalities, the villages) or a foreign state (a national, regional or local government).

state (employee benefit) plan	Employee benefit plans established by legislation to cover all enterprises (or all enterprises in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting enterprise.
statement of cash flows	Financial statement that provides information about the changes in cash and cash equivalents of an enterprise for a period, showing separately changes during the period from operating, investing and financing activities.
statement of changes in equity	Financial statement that presents the profit or loss for a period, items of income and expense recognised directly in equity for the period, the effects of changes in accounting policy and corrections of errors recognised in the period, and (depending on the format of the statement of changes in equity chosen by the enterprise) the amounts of transactions with equity holders acting in their capacity as equity holders during the period.
statement of comprehensive income	Financial statement that presents all items of income and expense recognised in a period, including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income. The statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.
statement of financial position	Financial statement that presents the relationship of an enterprise's assets, liabilities and equity as of a specific date.
subsidiary	An enterprise, including an unincorporated enterprise such as a partnership that is controlled by another enterprise (known as the parent).
substantively enacted	Tax rates shall be regarded as substantively enacted when future events required by the enactment process will not change the outcome.

tax basis	The measurement, under applicable substantively enacted tax law, of an asset, liability or equity instrument.
tax expense	The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.
taxable profit (tax loss)	The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.
temporary differences	Differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis.
termination benefits	Employee benefits payable as a result of either: (a) an enterprise'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.
timing differences	Income or expenses that are recognised in profit or loss in one period but, under tax laws or regulations, are included in taxable income in a different period.
timeliness	Providing the information in financial statements within the decision time frame.
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income).
treasury share	An enterprise's own equity instruments, held by the enterprise or other members of the consolidated group.

understandability	The quality of information in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.
useful life	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income).
value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.
venturer	A party to a joint venture that has joint control over that joint venture.
vest	Become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the enterprise vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions. .
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.