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THE GOOD GOVERNANCE FUND – CORPORATE FINANCIAL REPORTING FOR MICRO, SMALL AND MEDIUM ENTERPRISES (GE43)

The simplified Financial Reporting Standard for Georgian Category IV Entities

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Simplified Financial Reporting Standard for Georgian Category IV-entities (2018)

The Accounting Framework Applicable to Georgian Category IV-entities that do not elect to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) or the IFRS for Small and Medium-sized Entities (IFRS for SMEs)

Content

Organisation of the Standard

(i) The Simplified Financial Reporting Standard for Georgian Category IV-entities is organised by topic with each topic presented in a separate numbered section. Cross-references to paragraphs are identified by section followed by paragraph number. Paragraph numbers are in the form of xx.yy, where xx is the section number and yy is the sequential paragraph number within that section.

(ii) In examples that include monetary amounts, unless specified otherwise, the measuring unit is the Georgian Lari (abbreviated as GEL).

(iii) All the paragraphs of the Category IV-entities Standard have equal authority. The Category IV-entities Standard is accompanied by non-mandatory self-learning materials.

Section 1: Scope

Scope of this Standard

1.1 This Simplified Financial Reporting Standard for Georgian Category IV-entities (GFRS) applies to the individual financial statements of Georgian Category IV-entities as specified in the Law of Georgia on Accounting, Reporting and Auditing (LOARA) that, in accordance with the LOARA, elect not to prepare their financial statements in accordance with International Financial Reporting Standards or the International Financial Reporting Standard for Small and Medium-sized Entities.

1.2 Hereinafter references to a Category IV-entity in this GFRS are to an entity that qualifies to use the GFRS and that chooses to apply it.

Date from which effective

1.3 This GFRS is effective for annual accounting periods beginning on or after 1 January 2018. Early application of the GFRS is permitted.

Section 2: Concepts, Presumptions and Pervasive Principles

Scope of this section

2.1 This section sets out the concepts and basic principles that generally underlie the recognition and measurement of transactions of Category IV-entities within the scope of this GFRS.

Objective of financial statements of Category IV-entities

2.2 The objective of financial statements of a Category IV-entity is to provide information about the financial position and financial performance of the entity on an account of past transactions that is useful for economic decision-making and enhances corporate governance.

True and fair view presumption

2.3 The financial statements of a Category IV-entity prepared in compliance with this GFRS are presumed to show a true and fair view of the Category IV-entity's financial position and financial performance in accordance with this GFRS.

Basic financial statement concepts

2.4 A Category IV-entity shall prepare its financial statements using the following basic financial statement concepts.

2.5 **Going concern** basis of accounting: is appropriate unless management either intends to liquidate the Category IV-entity or to cease operations, or has no realistic alternative but to do so.

2.6 **Accrual basis** of accounting: recognise assets, liabilities and equity when they satisfy the definitions and recognition criteria specified for those items.

2.7 **Prudence:** (i) only profits made at the reporting date may be recognised, (ii) all liabilities arising in the course of the financial year concerned or in the course of a previous financial year shall be recognised, even if such liabilities become apparent only between the reporting date and the date on which the financial statements were submitted to SARAS, and (iii) all asset impairments shall be recognised.

2.8 **Material:** an omission or misstatement that could, individually or collectively, influence the economic decisions of users made on the basis of the Category IV-entity's financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

Elements of financial position

2.9 **Asset:** a resource controlled by the Category IV-entity as a result of past events and from which future economic benefits are expected to flow to the entity.

2.10 **Liability:** a present obligation (legal or constructive) of the Category IV-entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

2.11 **Equity:** the residual interest in the assets of the Category IV-entity after deducting all its liabilities.

Elements of financial performance

2.12 **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 owners.

2.13 **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 owners.

2.14 Profit or loss is the result of a Category IV-entity deducting its expenses for the period from its income for the period. Consequently, it is not a separate element of financial statements.

Recognition of elements

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

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

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

2.16 **Probability of future economic benefits:** 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.

2.17 **Measured reliably:** 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. 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.

2.18 Generally this GFRS does not permit the recognition of items in the statement of financial position that do not meet the definition of an element of the statement of financial position.

Measurement at initial recognition

2.19 At initial recognition a Category IV-entity shall measure assets and liabilities at cost. In limited circumstances this GFRS requires measurement of the cost of an asset or liability based on the best estimate of its recognition-date market value.

Measurement after initial recogn ition

2.20 After initial recognition, measurement of assets at amounts lower than their cost at initial recognition is intended to ensure that an asset is not measured at an amount greater than the Category IV-entity expects to recover from the sale or use of that asset.

2.21 **Non-financial assets:** generally are measured at cost less accumulated depreciation/amortisation and accumulated impairment, if any.

2.22 **Financial assets and financial liabilities:** except for investments in the equity instruments of other entities, generally are measured at cost adjusted for the allocation of interest and, in the case of financial assets, less accumulated impairment, if any.

2.23 **Investments in the equity instruments of other entities:** are measured at cost less accumulated impairment.

2.24 **Liabilities, other than financial liabilities:** generally are measured at the best estimate of the amount that would be required to settle the obligation at the reporting date.

Offsetting

2.25 A Category IV-entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this GFRS.

Section 3: Presentation of Financial Statements

Scope of this section

3.1 This section explains what compliance with this GFRS requires, what makes up a complete set of Category IV-entity financial statements and how to present the statement of financial position, the statement of income, expenses and retained earnings, statement of cash flows (if presented) and the notes.

Statement of compliance

3.2 Financial statements prepared by Category IV-entities in compliance with the GFRS shall, on the statement of financial position in a prominent position contain a statement that the financial statements are prepared in accordance with the Georgian Category IV-entity Financial Reporting Standard.

Frequency of reporting

3.3 In accordance with the LOARA, a Category IV- entity shall present a complete set of financial statements (including comparative information) annually as set out in paragraphs 3.8 and 3.9 .

Going concern assessment

3.4 When preparing financial statements, the management of an entity using this GFRS shall make an assessment of the Category IV-entity's ability to continue as a going concern. 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 end of the latest period covered by financial statements.

3.5 When management determine that a Category IV-entity that is yet to enter into the process of liquidation is not a going concern, it shall prepare the entity's financial statements on a basis that reflects that it is not a going concern.

3.6 When a Category IV-entity in the process of liquidation chooses to prepare financial statements it shall prepare those financial statements on a basis that reflects that it is not a going concern.

Materiality and aggregation

3.7 Within the limits of the line-items specified for the statement of financial position, the statement of income, expenses and retained earnings and the statement of cash flows (if presented), a Category IV-entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Complete set of financial statements

3.8 A complete set of financial statements of a Category IV-entity shall include the following:

(a) A statement of financial position as at the reporting date with specified notes positioned on the statement of financial position; and

(b) A statement of income, expenses and retained earnings.

A Category IV-entity is encouraged to also present a statement of cash flows, but it is not required to do so.

3.9 Except where this GFRS permits or requires otherwise, a Category IV-entity shall present comparative information in respect of the preceding period for all amounts presented in the current period's financial statements and the related notes.

Identification of the financial statements

3.10 A Category IV-entity shall clearly identify each of the financial statements and the notes. In addition, a Category IV-entity shall display the following information prominently in its financial statements and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;

(b) the legal form of the reporting entity;

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

(d) the fact that amounts in the financial statements are measured and presented in Georgian Lari; and

(e) the location of the Category IV-entity's registered office.

Statement of financial position

3.11 A Category IV-entity shall present a statement of financial position in the following format and, subject to materiality, presenting each of the following separate line-items:

ASSETS		**EQUITY AND LIABILITIES**	
		LIABILITIES	
Cash	X	Trade creditors	X
Trade receivables	X	Provisions	X
Prepayments and accrued income	X	Employee benefits	X
Inventories	XX	Taxes payable	X
- finished goods	X	Accrued expenses and deferred income	X
- other	X	Shareholder loans	X
Other current assets	X	Bank loans	X
Biological assets	XX	Other loans	X
- cost model	X	Other liabilities	X
- revaluation model	X	**Total Liabilities**	**XX**
Fixed assets	XX		
- land	X	**EQUITY**	
- buildings	X	Share capital	X
- other property, plant and equipment	X	Retained earnings	X
- intangible assets	X	Revaluation surplus reserve	X
- in-substance purchase assets	X	Other equity (specify)	X

Investments in the equity instruments of other entities	X		
Other non-current assets	X	**Total Equity**	**XX**
Treasury shares	X		
Called up share capital not paid	X		
Total Assets	**XX**	**Total Equity and Liabilities**	**XX**

3.12 A Category IV-entity shall classify an asset as current when:

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

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

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

Statement of income, expenses and retained earnings

3.13 A Category IV-entity shall present a statement of income, expenses and retained earnings in the following format and, subject to materiality, presenting each of the following separate line-items:

Net revenue	X
- sale of goods	X
- rendering of services	X
- construction contracts	X
- other	X
Cost of sales	(X)
Opening inventories	(X)
Purchases	(X)
Conversion costs	(X)
Closing inventories	X
Gross profit	**X**
Other income [specify…]	X
Staff costs expense	(X)
Depreciation/amortisation	(X)
Impairment expense	(X)
- financial assets	(X)
- inventories	(X)
- other non-financial assets	(X)
Interest income	(X)
Interest expense	(X)
Foreign exchange translation gains and losses	X
Other expenses	(x)
Profit before income tax	X
Income tax	(X)
Profit or loss for the year	**X**
Opening retained earnings: restated	X
- opening retained earnings before restatement (prior year's closing balance)	X
- prior period effects of correction of prior period error (specify…)	(X)
- prior period effects of a change in accounting policy (specify…)	X
Transfer from revaluation surplus reserve on realisation of a prior period revaluation gain through depreciation or sale in the year	X
Distributions s to owners (i.e. dividends)	(X)
Closing retained earnings	**XX**

Statement of cash flows

3.14 A Category IV-entity that chooses to present a statement of cash flows shall present its statement of cash flows using the direct method in the following format and, subject to materiality, presenting each of the following separate line-items:

Operating activities	
Cash receipts from customers	X
Cash payments to suppliers and employees	(X)
Cash generated from operations	X
Income tax paid	(X)
Net cash from operating activities	*X*
Investing activities	
Cash outflows for purchasing and enhancing fixed assets	(X)
Cash outflows for purchasing and enhancing biological assets in agricultural activity	(X)
Proceeds from sale of fixed assets	X
Proceeds from sale of biological assets in agricultural activity	X
Interest received	X
Dividends received	X
Net cash used in investing activities	*(X)*
Financing activities	
Proceeds from issue of share capital	X
Proceeds from long-term borrowings	X
Payment of in-substance-purchase lease liabilities	(X)
Payment of loan liabilities	(X)
Payment of interest expenses	(X)
Payment of dividends	(X)
Net cash raised in financing activities	*X*
Net cash inflow for the year	**X**
Cash at the beginning of the year	**X**
Cash at the end of the year	**X**

Notes

3.15 A Category IV-entity shall present the notes at the bottom of the statement of financial position. Those notes shall include only the following information:

(a) the total amount of any financial commitments, guarantees or contingencies not included in the statement of financial position and an indication of the nature and form of any valuable security which has been provided, separately for each of the following:

(i) pensions; and

(ii) its parent, subsidiary (an undertaking controlled by a parent undertaking, including any subsidiary undertaking of an ultimate parent undertaking) or associated undertaking (i.e. an undertaking in which the Category IV-entity has a participating interest, and over whose operating and financial policies it exercises significant influence. The Category IV-entity is presumed to exercise a significant influence over another undertaking where it has 20% or more of the shareholders' or members' voting rights in that other undertaking).

(b) the amount of advances and credits granted to members of the administrative, managerial and supervisory bodies, with indications of the interest rates, main conditions and any amounts repaid or written off or waived, as well as commitments entered into on their behalf by way of guarantees of any kind, with an indication of the total for each category.

(c) information on acquisitions and disposal of own shares, either itself or through a person acting in his own name but on the Category IV-entity's behalf, they shall require the annual financial statements to state at least:

   (i) the reasons for acquisitions made during the financial year.

   (ii) the number and nominal value or, in the absence of a nominal value, the accountable par of the shares acquired and disposed of during the financial year and the proportion of the subscribed capital which they represent.

   (iii) in the case of acquisition or disposal for a value, the consideration for the shares.

   (iv) the number and nominal value or, in the absence of a nominal value, the accountable par of all the shares acquired and held by the entity and the proportion of the subscribed capital which they represent.

Section 4: Accounting Policies Estimates and Errors

Scope of this section

4.1 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

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

4.3 If this GFRS specifically addresses a transaction, other event or condition, a Category IV-entity shall apply this GFRS. However, the entity need not follow a requirement in this GFRS if the effect of doing so would not be material.

4.4 If this GFRS does not specifically address an economic phenomenon (i.e. transaction, other event or condition), an entity's management shall use its judgement in developing and applying an accounting policy that results in information that:

(a) represents faithfully the economic phenomenon;

(b) reflect the economic substance of the economic phenomenon, and not merely the legal form; and

(c) is prudent.

4.5 In making the judgement described in paragraph 4.4, management shall refer to and consider the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts, Presumptions and Pervasive Principles*.

4.6 A Category IV-entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.

Changes in accounting policies

4.7 A Category IV-entity shall change an accounting policy only if the change:

(a) is required by changes to this GFRS; or

(b) results in the financial statements providing reliable and more relevant information about an economic phenomenon on the entity's financial position and financial performance.

4.8 A Category IV-entity shall account for a change in accounting policy resulting from a change in the requirements of this GFRS, in accordance with the transitional provisions, if any, specified in that amendment. All other changes in accounting policy shall be accounted for retrospectively.

4.9 However, it is presumed that it is impossible for a Category IV-entity to determine the inter-period effects of applying retrospectively the new accounting policy. Consequently, the comparative information shall not be restated and the Category IV-entity shall restate the opening carrying amounts of assets, liabilities and equity of the current period. Such a prior period adjustment shall be presented as a separate line-item in the statement of income, expenses and retained earnings.

Changes in accounting estimates

4.10 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.

4.11 A Category IV-entity shall recognise the effect of a change in an accounting estimate prospectively by including it in profit or loss of:

(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.

4.12 However, 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 Category IV-entity shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Corrections of prior period errors

4.13 Prior period errors are omissions from, and misstatements in, a Category IV-entity'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 submitted to SARAS; and

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

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

4.15 To the extent practicable, an entity shall correct a material prior period error retrospectively in the first financial statements submitted to SARAS after its discovery.

4.16 However, it is presumed that it is impossible for a Category IV-entity to determine the inter-period effects of correcting retrospectively the prior period error. Consequently, the comparative information shall not be restated and the Category IV-entity shall restate the opening carrying amounts of assets, liabilities and equity of the current period. Such a prior period adjustment shall be presented as a separate line-item in the statement of income, expenses and retained earnings.

Section 5: Financial Instruments

Scope of this section

5.1 This section specifies accounting by Category IV-entities for all financial instruments that it is party to, except:

(a) Financial instruments that meet the definition of a Category IV-entities own equity (see Section 12 *Transactions with Owners in their Capacity as Owners*).

(b) Leases, to which Section 10 *Leases* applies. However, the derecognition requirements in paragraphs 5.17–5.18 apply to the derecognition of lease receivables recognised by a lessor and lease payables recognised by a lessee, and the impairment requirements in paragraphs 5.13–5.14 apply to lease receivables recognised by a lessor.

(c) Financial guarantee contracts, to which Section 11 *Provisions and Contingencies* applies.

5.2 A **financial instrument** is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

5.3 A **financial asset** is any asset that is: (a) cash; (b) an equity instrument of another entity; or (c) a contractual right to receive cash or another financial asset from another entity.

5.4 A **financial liability** is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Recognition

5.5 A Category IV-entity shall recognise a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Measurement at initial recognition

5.6 When a financial asset or financial liability is recognised initially, a Category IV-entity shall measure it at its cost. The cost is measured at the transaction price excluding transactions costs.

5.7 However, when a Category IV-entity receives an interest-free or low-interest loan from a government, it must apply paragraph 14.4 in measuring the transaction price.

5.8 Similarly, when a Category IV-entity purchases inventories (see Section 6 *Inventories*), fixed assets (see Section 7 *Fixed Assets*), or biological assets in agricultural activity (Section 8 *Biological Assets in Agricultural Activity*); or sells goods or services with settlement deferred beyond normal credit terms (see paragraph 13.8), the transactions price is the cash price available on the date of the transaction.

5.9 The difference between the purchase price for normal credit terms and deferred credit terms reflects a financing transaction. The difference between the transactions price determined in accordance with paragraph 5.8 and the total deferred payments is accounted for on the straight-line method as interest income (when the entity is the seller, see paragraph 5.12(a)) or interest expense (when the entity is the buyer) on the straight-line method over the deferred payment period (see paragraph 5.16).

5.10 Transaction costs are recognised as an expense in profit or loss when incurred.

Measurement of financial assets after initial recognition

5.11 At the end of each reporting period, a Category IV-entity shall measure financial assets as follows:

(a) **Investments in the equity instruments of other entities** at cost less accumulated impairment, if any.

(b) **All other financial assets** at:

(i) cost at initial recognition;

(ii) plus the cumulative interest income recognised in profit or loss to date;

(iii) minus all repayments of capital and interest to date;

(iv) minus accumulated impairment.

5.12 **Interest income** is the difference between cost at initial recognition and the sum of subsequent contractual receipts. A Category IV-entity shall allocate interest income over the term of the contract as follows:

(a) For transactions where settlement is deferred beyond normal credit terms (as described in paragraph 5.8), on a straight-line basis over the term of the contract.

(b) In all other cases, at a constant rate on the financial asset's carrying amount. The applicable rate will normally be the contractual rate of interest.

5.13 At the end of each reporting period, a Category IV-entity shall assess whether there is evidence of impairment of any financial asset. If there is evidence of impairment, the Category IV-entity shall test the financial asset for impairment by measuring the best estimate of its value at the end of the reporting period. If the best estimate is less than the asset's carrying amount, the Category IV-entity shall reduce the carrying amount to the best estimate and immediately recognise the reduction as an impairment expense in the statement of income, expenses and retained earnings.

5.14 A Category IV-entity shall reverse a previously recognised impairment loss if a subsequent increase in the best estimate of the value of the previously impaired financial asset is related to an event occurring after the impairment loss was recognised. The amount of the reversal shall be recognised immediately as income in the statement of income, expenses and retained earnings.

Measurement of financial liabilities after initial recognition

5.15 At the end of each reporting period, a Category IV-entity shall measure financial liabilities at:

(a) cost at initial recognition;

(b) plus the cumulative interest expense recognised in profit or loss to date;

(c) minus all repayments of capital and interest to date.

5.16 **Interest expense** is the difference between cost at initial recognition and the total amount of subsequent contractual payments. A Category IV-entity shall allocate interest expense over the term of the contract as follows:

(a) For transactions where settlement is deferred beyond normal credit terms (as described in paragraph 5.8), on a straight-line basis over the term of the contract.

(b) In all other cases, at a constant rate on the financial liability's carrying amount. The applicable rate will normally be the contractual rate of interest.

Derecognition of a financial asset

5.17 A Category IV-entity shall derecognise a financial asset (or part of a financial asset) when:

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

(b) The requirements in Georgian tax law for the derecognition of the financial asset are satisfied.

5.18 Any gain or loss on the derecognition of a financial asset (or part of a financial asset) shall be immediately recognised as income or expense in profit or loss.

Section 6: Inventories

Scope of this section

6.1 This section specifies accounting for all inventories of a Category IV-entity, except:

(a) work in progress arising under construction contracts, including directly related service contracts (see Section 13 *Revenue from Contracts with Customers*); and

(b) biological assets related to agricultural activity and agricultural produce up to the point of harvest (see Section 8 *Biological Assets in Agricultural Activity*).

6.2 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.

Measurement of inventories

6.3 A Category IV-entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.

6.4 The **cost of inventories** is all costs that are directly attributable to bringing the inventories to their present location and condition, including:

(a) costs of purchase;

(b) costs of conversion; and

(c) other costs that are directly attributable to bringing the inventories to their present location and condition.

6.5 The **costs of purchase** comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity 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. If payment is deferred beyond normal credit terms the purchase price included in the cost of inventories is the cash price available on the date of the transaction. The difference between the purchase price for normal credit terms and deferred credit terms shall be accounted for in accordance with Section 5 *Financial Instruments*.

6.6 A Category IV-entity shall measure the cost of purchase of inventory acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets at the best estimate of the recognition-date market value unless (a) the exchange transaction lacks commercial substance or (b) the market 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.

6.7 The **costs of conversion** of inventories include costs directly related to the units of production, such as direct factory staff costs. They also include a systematic allocation of production overheads that are incurred in converting materials into finished goods (for example, depreciation/amortisation and maintenance of factory buildings and equipment).

6.8 Cost of agricultural produce harvested from biological assets: Section 8 *Biological Assets in Agricultural Activities* requires that inventories comprising agricultural produce that a Category IV-entity has harvested from its biological assets shall be measured on initial recognition at their estimated selling price less costs to complete and sell at the point of harvest. This becomes the cost of the inventories at the point of harvest for application of this section.

6.9 **Cost formulas:** a Category IV-entity 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. The cost of all other inventories shall be measured by using the first-in, first-out (FIFO) or weighted average (WA) cost formula.

6.10 **Impairment:** at the end of each reporting period a Category IV-entity shall assess whether any inventories are impaired, i.e. the carrying amount is not fully recoverable (for example, because of damage, obsolescence or declining selling prices). If an item of inventory is impaired, the Category IV-entity shall measure the inventory at its estimated selling price less costs to complete and sell and immediately recognise an impairment expense in profit or loss.

6.11 A Category IV-entity shall not reverse a previously recognised impairment loss.

Recognition as an expense

6.12 When inventories are sold, the Category IV-entity shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.

Section 7: Fixed Assets

Scope of this section

7.1 This section specifies accounting by Category IV-entities for property, plant and equipment (including investment property) and intangible assets. It does not specify accounting for biological assets in agricultural activity (see Section 8 *Biological Assets in Agricultural Activity*).

7.2 **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..

7.3 **Intangible assets** are identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: (a) is separable, i.e. is capable of being separated or divided from the entity 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 entity or from other rights and obligations.

Recognition

7.4 A Category IV-entity shall recognise a fixed asset when:

(a) the item's cost can be measured reliably;

(b) it is probable that the future economic benefit associated with the item will flow to the Category IV-entity; and

(c) the item does not result from expenditure incurred internally on an intangible item. (Any internally generated intangible shall not be recognised as an asset of a Category IV-entity. All such expenditures shall be immediately recognised as an expense in profit or loss.)

7.5 Land and buildings are separable assets, and a Category IV-entity shall account for them separately, even when they are acquired together.

Measurement at initial recognition

7.6 When a fixed asset is recognised initially, a Category IV-entity shall measure it at its cost.

7.7 The cost of a fixed assets comprises the costs of purchase and all other costs that are directly attributable to bringing the item to the location and condition for it to be capable of operating in the manner intended by management, except borrowing costs.

7.8 The **costs of purchase** comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and transport, handling and other costs directly attributable to the acquisition of the item. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. If payment is deferred beyond normal credit terms the purchase price included in the cost of purchase is the cash price available on the date of the transaction. The difference between the purchase price for normal credit terms and deferred credit terms shall be accounted for in accordance with Section 5 *Financial Instruments*.

7.9 A Category IV-entity shall measure the cost of an item of fixed asset acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets at the best estimate of recognition-date market value unless (a) the exchange transaction lacks commercial substance or (b) the market 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.

7.10 A Category IV-entity shall measure the cost of an item of fixed asset acquired by way of government grant at the best estimate of its recognition-date market value (see Section 14 *Government Grants*).

Measurement after initial recognition

7.11 After initial recognition a Category IV-entity shall measure an item of fixed assets at its cost less accumulated depreciation/amortisation and accumulated impairment determined in accordance with Section 9 *Impairment of Non-financial Assets*.

7.12 Depreciation/amortisation shall reflect the manner in which the Category IV-entity consumes the service potential of the item through the use to which it is put. Depreciation/amortisation involves judgements and estimates including:

(a) determining the depreciation/amortisation method that most closely reflects how the item's service potential is consumed through the use to which it is put. (For intangible assets only, a Category IV-entity shall use the straight-line method of depreciation/amortisation unless another method is obviously more appropriate.)

(b) estimating the useful life of the item, i.e. the period over which an asset is expected to be available for use by the Category IV-entity or the number of production or similar units expected to be obtained from the asset by the Category IV-entity.

(c) estimating the residual value of the item. (However, a Category IV-entity shall presume that the residual value of an item is nil unless there is readily determinable objective evidence of the price at which the item could be sold if it were already of the age and in the condition that it is expected to be at the end of its useful life.)

7.13 Depreciation/amortisation of an item shall begin when it is in the location and condition necessary for it to be capable of operating as intended by management. Depreciation/amortisation of an item shall stop when the asset is derecognised.

7.14 Land is not depreciated, except in the rare circumstances in which its service potential is consumed through the use to which it is put. A Category IV-entity shall depreciate all other fixed assets.

Derecognition

7.15 A Category IV-entity shall derecognise an item of fixed asset on disposal or when no future economic benefits are expected from its use or disposal.

7.16 Any gain or loss on the derecognition of an item of fixed asset shall be immediately recognised as income or expense in profit or loss.

Section 8: Biological Assets in Agricultural Activity

Scope of this section

8.1 This section specifies accounting by Category IV-entities for biological assets in agricultural activity. The accounting for agricultural produce after the point of harvest is specified in Section 6 *Inventories*.

8.2 A **biological asset** is a living animal or plant.

8.3 **Agricultural activity** is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.

8.4 **Agricultural produce** is the harvested product of the entity's biological assets.

Recognition

8.5 A Category IV-entity shall recognise a biological asset in agricultural activity when:

(a) the Category IV-entity controls the biological asset;

(b) the cost of the biological asset can be measured reliably; and

(c) it is probable that the future economic benefit associated with the biological asset will flow to the Category IV-entity.

8.6 At the point of harvest, a Category IV-entity shall recognise agricultural produce separately from the biological asset from which it is detached, as inventories (see Section 6 *Inventories*).

Measurement of a biological asset in agricultural activity

8.7 A Category IV-entity shall measure a biological asset in agricultural activity using the cost model unless the Category IV-entity determines that the net cost to it of using the cost model exceeds the net cost to it of using the revaluation model, in which circumstances it shall use the revaluation model. The relative net cost determination is made separately for each class of biological asset.

Cost model

8.8 A Category IV-entity shall measure a biological asset at its initial recognition at cost. At each subsequent reporting date, the biological asset shall be measured at its cost less accumulated depreciation/amortisation and accumulated impairment determined in accordance with Section 9 *Impairment of Non-financial Assets*.

Revaluation model

8.9 A Category IV-entity shall at its initial recognition and at each subsequent reporting date, after depreciating the biological asset for the period, measure a biological asset at the best estimate of its reporting-date selling price less costs to sell.

8.10 If a biological asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised directly in a separate category of equity 'revaluation surplus reserve'.

8.11 If a biological asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised as an expense in profit or loss except to the extent of any credit balance existing in the revaluation surplus reserve in respect of the biological asset.

8.12 On disposal of a biological asset, any balance remaining in the revaluation surplus reserve shall be transferred to retained earnings.

Depreciation

8.13 Depreciation shall reflect the manner in which the Category IV-entity consumes the service potential of the biological asset. Depreciation involves judgements and estimates including:

(a) determining the depreciation method that most closely reflects the pattern in which the biological asset's service potential is consumed.

(b) estimating the useful life of the biological asset, typically the quantum of produce expected to be harvested from the biological asset by the Category IV-entity.

(c) estimating the residual value of the item. (However, a Category IV-entity shall presume that the residual value of an item is nil unless there is readily determinable objective evidence of the price at which the biological asset could be sold if it were already of the age and in the condition that it is expected to be at the end of its useful life.)

8.14 Depreciation of a biological asset shall begin when produce is first harvested from it. Depreciation of a biological asset shall stop when it is derecognised or no further produce is expected to be harvested from it.

Measurement of agricultural produce

8.15 Agricultural produce harvested from a Category IV-entity's biological assets shall be measured at the point of harvest at its estimated selling price less costs to complete and sell. Such measurement is the cost at that date when applying Section 6 *Inventories*.

Section 9: Impairment of Non-financial Assets

Scope of this section

9.1 This section specifies accounting by Category IV-entities for the impairment of non-financial assets other than inventories (see Section 6 *Inventories*).

When to test for impairment

9.2 A Category IV-entity shall assess at each reporting date whether there is any indication that a non-financial asset might be impaired. If any such indication exists, the Category IV-entity shall develop a best estimate of the reporting-date market value of the asset.

9.3 In assessing whether there is any indication that an asset may be impaired, a Category IV-entity shall consider, as a minimum, the following indications:

External sources of information

(a) during the period, an asset's market value (or the Category IV entity's best estimate of its reporting-date market value) has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) the carrying amount of the net assets/equity of the Category IV-entity is more than management's best estimate of the market value of the Category IV-entity as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the entity).

Internal sources of information

(a) evidence is available of obsolescence or physical damage of an asset.

(b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs and plans to dispose of an asset before the previously expected date.

(c) 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.

Accounting for an impairment loss

9.4 If the reporting-date carrying amount of an asset exceeds the best estimate of the reporting-date market value of the asset developed by the Category IV-entity, the Category IV-entity shall reduce the carrying amount to the best estimate of the reporting-date market value and immediately recognise such impairment loss as an expense in profit or loss.

Reversal of an impairment loss

9.5 A Category IV-entity shall not reverse a previously recognised impairment loss.

Section 10: Leases

Scope of this section

10.1 This section specifies accounting by Category IV-entities for leases other than licencing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see intangible assets in Section 7 *Fixed Assets*).

10.2 A **lease** is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Classification of leases

10.3 A lease is classified as an **in-substance-purchase lease** if the lease agreement specifies that ownership of the item that is the subject of the lease transfers from the lessor to the lessee at the end of the lease term.

10.4 An **other lease** is a lease that is not classified as an in-substance-purchase.

Lessees: accounting for in-substance-purchase leases

10.5 **Initial recognition:** at the commencement of the lease term, a Category IV-entity lessee shall recognise its rights of use and its obligations under in-substance-purchase leases as assets and liabilities in its statement of financial position at the amount equal to the cash cost of the asset. The cash cost of the asset cannot exceed the sum of the contractual lease payments.

10.6 **Subsequent measurement of the lease liability:** a Category IV-entity lessee shall apportion contractual lease payments between the interest expense and the reduction of the outstanding liability so as to recognise the interest expense on the straight-line method.

10.7 **Subsequent measurement of the leased asset:** a Category IV-entity lessee shall depreciate an asset leased in accordance with the relevant section of this GFRS for that type of asset (typically Section 7 *Fixed Assets*) and, if impairment is indicated, test it for impairment in accordance with Section 9 *Impairment of Non-financial Assets*).

Lessees: accounting for other leases

10.8 A Category IV-entity lessee shall recognise lease payments under a lease that is not an in-substance-purchase lease as an expense in profit or loss over the lease term on the straight-line basis.

10.9 When a lease that is not an in-substance-purchase lease becomes an onerous contract a Category IV-entity shall also apply Section 11 *Provisions and Contingencies*.

Lessors: accounting for other leases

10.10 A Category IV-entity lessor shall recognise lease income from a lease that is not an in-substance-purchase lease in profit or loss over the lease term on the straight-line basis.

Lessors: accounting for in-substance-purchase leases

10.11 At the commencement of the lease, the lessor shall derecognise the asset that is the subject of the lease and recognise a financial asset (lease receivable).

10.12 The gain or loss arising from any difference between the carrying amount of the of the asset derecognised (see paragraph 10.11) and the initial measurement of the lease receivable (see paragraph 10.13) shall, at the commencement of the lease term, be recognised as income or expense in profit or loss.

10.13 **Measurement of the lease receivable asset at initial recognition:** at the commencement of the lease term, a Category IV-entity lessor shall measure the lease receivable at the amount equal to the cash selling price of the asset. The cash selling price of the asset cannot exceed the sum of the contractual lease payments.

10.14 **Subsequent measurement of the lease receivable asset:** a Category IV-entity lessor shall apportion contractual lease payments between interest income and the reduction of the outstanding lease receivable asset so as to recognise interest income on the straight-line method.

Section 11: Provisions and Contingencies

Scope of this section

11.1 This section specifies accounting by Category IV-entities for all provisions except those provisions covered by other sections of this GFRS. Where those other sections contain no specific requirements to deal with contracts that have become onerous contracts, this section applies to those contracts.

11.2 A **provision** is a liability of uncertain timing or amount.

11.3 An **onerous contract** is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

11.4 This section also defines contingent liabilities and contingent assets and specifies that a Category IV-entity shall not recognise contingent liabilities and shall not recognise contingent assets in its statement of financial position.

11.5 A **contingent liability** is either: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because either: (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.

11.6 A **contingent asset** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

11.7 This section does not apply to financial instruments that are within the scope of Section 5 *Financial Instruments* unless the contracts are onerous contracts. This section applies to financial guarantee contracts issued by the entity. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

11.8 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.

Accounting for provisions

11.9 A Category IV-entity shall **recognise** a provision as a liability in its statement of financial position when:

(a) the Category IV-entity has a present obligation at the reporting date (i.e. it has no realistic alternative to settling the obligation);

(b) it is probable (i.e. more likely than not) that the Category IV-entity will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.

(d) A Category IV-entity shall **measure** a provision at the best estimate of the amount the Category IV-entity would rationally pay to settle the obligation at the end of the reporting period.

11.10 A Category IV-entity shall recognise as an expense in profit or loss in a period the provision was initially recognised unless another section of the GFRS requires it be recognised as part of the cost of an asset. In subsequent periods, a Category IV-entity shall charge against a provision only those expenditures for which the provision was originally recognised. All other decreases in the carrying amount of a provision shall be recognised as income in profit or loss.

Accounting for onerous contracts

11.11 If a Category IV-entity has an onerous contract, the present obligation under the contract shall be **recognised** as a liability classified as a provision in its statement of financial position.

11.12 A Category IV-entity shall **measure** the provision (liability) for an onerous contract at the best estimate of the extent to which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Category IV-entity under the contract.

Disclosure in the notes

11.13 A Category IV-entity shall determine the amount of any financial commitments, guarantees and contingencies not recognised in its statement of financial position and disclose the amount within the total amount for financial commitments, guarantees and contingencies as specified in Section 3 *Notes*. A Category IV-entity is not required to disclose the amount of a contingent liability when the possibility of an outflow of resources is remote.

Section 12: Accounting for Transactions with Owners in their Capacity as Owners

Scope of this section

12.1 This section specifies accounting for transactions with owners in their capacity as owners. This section does not apply to financial guarantee contracts (see Section 11 *Provisions and Contingencies*).

Classification of an instrument as liability or equity

12.2 A Category IV-entity shall classify a financial instrument issued by it, when it is first recognised, as a financial liability or equity in accordance with the definitions of a financial liability and equity.

12.3 Section 5 *Financial Instruments* specifies the definitions of a financial instrument and a financial liability and accounting for a financial liability.

12.4 Section 2 *Concepts, Presumptions and Pervasive Principles* specifies the definition of equity.

Accounting for an issue of equity

12.5 A Category IV-entity 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 entity in exchange for the instruments:

(a) if the equity instruments are issued before the entity receives the cash or other resources, the Category IV-entity shall present the amount receivable as an asset;

(b) if the Category IV-entity receives the cash or other resources before the equity instruments are issued, and the Category IV-entity cannot be required to repay the cash or other resources received, the Category IV-entity shall recognise the corresponding increase in equity to the extent of consideration received; and

(c) to the extent that the equity instruments have been subscribed for but not issued, and the Category IV-entity has not yet received the cash or other resources, the Category IV-entity shall not recognise an increase in equity.

12.6 At initial recognition and subsequently, a Category IV-entity shall measure equity instruments at the best estimate of the initial recognition-date market value of the consideration received or receivable.

12.7 A Category IV-entity shall account for the transaction costs as an expense in profit or loss when incurred.

Accounting for treasury shares

12.8 Treasury shares are the equity instruments of a Category IV-entity that have been issued and subsequently reacquired by the Category IV-entity. A Category IV-entity shall account for the best estimate of the consideration given for the treasury shares as an investment asset classified as a current asset. The Category IV-entity shall not recognise a gain or loss in profit or loss on the purchase, sale, transfer or cancellation of treasury shares.

Accounting for a distribution to owners

12.9 A Category IV-entity shall reduce equity by the best estimate of the market value of distributions to its owners (holders of its equity instruments). Income tax relating to distributions to owners shall be accounted for in accordance with Section 16.

Section 13: Revenue from Contracts with Customers

Scope of this section

13.1 This section specifies requirements for Category IV-entities to account for revenue from contracts with its customers. The requirements are specified separately for revenue arising from:

(a) the sale of goods;

(b) the rendering of services, (including construction services); and

(c) the use by others of the Category IV-entity's non-financial assets (including royalties).

13.2 Interest income and dividend income are excluded from the scope of this section. They are in the scope of Section 5 *Financial Instruments*.

Recognition

13.3 Recognise revenue for a contract with a customer:

(a) **Sale of goods** when: (i) control of the item that is the subject of the contract with the customer passes from the Category IV-entity to the customer; (ii) it is possible to measure the transactions price with reasonable assurance; and (iii) collection of the transactions price is reasonably assured.

(b) **Rendering of services**, including construction services, when: (i) the Category IV-entity has performed the service (determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished); (ii) it is possible to measure the transactions price with reasonable assurance; and (iii) collection of the transactions price is reasonably assured.

The percentage of completion method is used when performance consists of the execution of more than one act, and revenue would be recognised proportionately by reference to the performance of each act. Revenue recognised under this method shall be determined on a rational and consistent basis, such as on the basis of sales value, associated costs, extent of progress, or number of acts.

When services are provided by an indeterminate number of acts over a specific period of time, revenue shall be recognised on a straight-line basis over the period, unless there is evidence that some other method better reflects the pattern of performance under the contract by the Category IV-entity. The amount of work accomplished shall be assessed by reference to measures of performance that are reasonably determinable and relate as directly as possible to the activities critical to the completion of the contract. Measures of performance include output measures, such as units produced and project milestones, or input measures, such as cost, labour hours, or machine use. Amounts billed are not an appropriate basis of measurement unless they reflect the work accomplished.

(c) **Royalties**: (i) as they accrue, in accordance with the terms of the contract with the customer; (ii) it is possible to measure the accrued royalty with reasonable assurance; and (iii) collection of the accrued royalty is reasonably assured.

13.4 When it is impracticable to measure the transactions price with reasonable assurance a Category IV-entity shall limit the recognition of revenue to the costs incurred that are specifically recoverable under the contract with the customer.

13.5 When there is significant uncertainty about collection, recognise revenue only as cash is received because the sale transaction lacks commercial substance.

13.6 However, when the uncertainty relates to collectability and arises subsequent to the time revenue was recognised, an impairment expense is recognised to reflect such uncertainty (see Section 5 *Financial Instruments*). The amount of revenue originally recorded must not be adjusted.

Measurement of revenue

13.7 A Category IV-entity shall measure revenue at transaction price adjusted for the best estimate of the amount of trade discounts, prompt settlement discounts and volume rebates allowed by the Category IV-entity (a deduction from transactions price).

13.8 When a Category IV-entity sells goods or services with settlement deferred beyond normal credit terms revenue is measured at the cash price for customers that pay cash on the date of the transaction. The extent to which transactions price exceeds the cash selling price reflects a financing transaction that is accounted for on the straight-line method in accordance with Section 5 *Financial Instruments*.

Onerous contracts

13.9 When a contract with a customer becomes an onerous contract a Category IV-entity shall also apply Section 11 *Provisions and Contingencies*.

Section 14: Government Grants

Scope of this section

14.1 This section specifies requirements for Category IV-entities to account for all government grants. A government grant is assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Recognition

14.2 A Category IV-entity 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; and

(c) grants received before the income recognition criteria are satisfied are recognised as a liability.

Measurement

14.3 A Category IV-entity shall measure grants at initial recognition at the best estimate of the market value of the asset received or receivable.

14.4 The benefit of a loan from a government at a below-market rate of interest (including an interest-free loan) is a government grant. At initial recognition the loan liability shall be measured at the best estimate of the amount of cash that the entity would have received from a commercial bank in exchange for the promise to pay the contractual cash outflows specified in the agreement with the government. The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan liability and the proceeds received. The benefit is accounted for in accordance with this Section.

Section 15: Employee Benefits

Scope of this section

15.1 This section specifies the accounting by Category IV-entities for all employee benefits. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management.

Recognition

15.2 A Category IV-entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the Category IV-entity during the reporting period:

(a) as a liability, after deducting amounts that have been paid in settlement of the liability. If the amount paid exceeds the obligation arising from service before the reporting date, an entity 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 GFRS requires the cost to be recognised as part of the cost of an asset such as inventories, fixed assets or biological assets in agricultural activity.

Measurement

15.3 A Category IV-entity shall measure all liabilities for employee benefits at the best estimate of the amount that would be required to settle the obligation at the reporting date.

Section 16: Income Tax

Scope of this section

16.1 This section specifies the accounting by Category IV-entities for current income tax. Income tax includes all domestic and foreign taxes that are based on taxable profit.

16.2 Current income tax is payable determined in accordance with Georgian tax law and, when applicable, the income tax laws of other jurisdictions.

Recognition

16.3 A Category IV-entity shall recognise a liability to pay current tax to the extent at the reporting date it is obliged to pay income tax in accordance with Georgian tax law and, when applicable, the income tax laws of other jurisdictions.

Measurement

16.4 A Category IV-entity shall measure a current income tax liability in accordance with Georgian tax law and, when applicable, the income tax laws of other jurisdictions.

Section 17: Foreign Currency

Scope of this section

17.1 This section specifies the accounting by Category IV-entities for transactions denominated in a foreign currency.

17.2 The measurement currency and the presentation currency of a Category IV-entity shall be the Georgian Lari.

17.3 A foreign currency transaction is any transaction of a Category IV entity that is not denominated in Georgian Lari.

Reporting foreign currency transactions in the Georgian Lari

17.4 At initial recognition of a foreign currency denominated transaction, a Category IV-entity shall translate the transaction into the Georgian Lari, by applying to the initial recognition-date foreign currency amount the spot exchange rate (as published by the National Bank of Georgia) between the Georgian Lari and the foreign currency at the date of the transaction. The date of the transaction is the date on which the transaction first qualifies for recognition in accordance with another section of this GFRS.

17.5 At the end of each reporting period, a Category IV-entity shall

(a) translate foreign currency monetary items using the closing rate (as published by the National Bank of Georgia);

(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 remeasured after their initial recognition in a foreign currency using the exchange rates at the date when the non-monetary item was remeasured.

Section 18: Events After the Reporting Period

Scope of this section

18.1 Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are submitted to SARAS.

18.2 This section classifies events after the end of the reporting period as:

(a) **adjusting events:** events after the reporting period that provide evidence of conditions that existed at the end of the reporting period;

(b) **non-adjusting events:** events after the reporting period that are indicative of conditions that arose after the end of the reporting period; and

(c) **basis of preparation events:** events after the reporting period that are of such significance that the Category IV-entity that management judge that they have no realistic alternative but to liquidate the Category IV-entity (i.e. it is no longer a going concern).

Recognition and measurement

18.3 A Category IV-entity shall adjust the amounts recognised in its financial statements (including related disclosures, if any) to reflect adjusting events after the end of the reporting period.

18.4 Non-adjusting events are not recognised.

18.5 When a basis of preparation event occurs before a Category IV-entity's financial statements are submitted to SARAS it shall prepare its financial statements on a basis that reflects that it is not a going concern.

Section 19: Transitioning to the GFRS

Scope of this section

19.1 A first-time adopter of the GFRS shall apply this section in its first financial statements that it purports to conform to the GFRS. A first-time adopter is an entity that presents its first annual financial statements that conform to this GFRS.

19.2 A Category IV-entity's date of transition to the GFRS is the beginning of the earliest period for which the entity presents full comparative information in accordance with the GFRS in its first financial statements that it purports to conform to the GFRS.

19.3 This section shall also be applied by a Category IV-entity that has applied the GFRS in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with the GFRS.

Transition principle

19.4 A Category IV-entity prepares its first financial statements that conform to the GFRS as if it has always applied the GFRS. In other words, on its date of transition to the GFRS the Category IV-entity shall:

(a) recognise all assets and liabilities whose recognition is required by the GFRS;

(b) not recognise items as assets or liabilities if the GFRS 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 the GFRS; and

(d) apply the GFRS in measuring all recognised assets and liabilities.

Optional exemptions from the transition principle on first-time adoption

19.5 At the date of its transition to the GFRS, only a Category IV-entity that is a **first-time adopter** of the GFRS may choose to use either of the following exemptions from the transition principle:

(a) not to present comparatives in its first GFRS financial statements. The date of transition to the GFRS of a Category IV-entity that chooses to use this exemption is the beginning of the current year of it first GFRS financial statements.

(b) to present only a statement of financial position (and the three mandatory notes) as its first GFRS. The date of transition to the GFRS of a Category IV-entity that chooses to use this exemption is as at the date of its first GFRS statement of financial position (which is also its first GFRS financial statements).

19.6 At the date of its transition to the GFRS, a Category IV-entity may choose to measure any item of property, plant and equipment (including investment property) or biological asset in agricultural activity at the best estimate of the transition-date market value at which the Category IV-entity could sell the item and use that value as its deemed cost at that date.

Optional exemptions from the transition principle on subsequent readoption

19.7 An entity that has applied the GFRS in a previous reporting period, but whose most recent previous annual financial statements were prepared in compliance with another accounting framework (for example, the IFRS for SMEs), must either:

(a) apply the GFRS retrospectively in accordance with Section 4 *Accounting Policies, Estimates and Errors* as if the entity had never stopped applying the GFRS; or

(b) apply the GFRS retrospectively in accordance with Section 4 *Accounting Policies, Estimates and Errors* as if the entity had never stopped applying the GFRS, with the exception that it may elect to apply the optional exemption specified in paragraph 19.6.