MAY 15, 2020

ACCOUNTING POLICY MANUAL OF OROMIA CAPITAL GOODS FINANCE BUSINESS /OCGFB/

IN COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

PREPARED BY: HABIB MOHAMMED
Addis Ababa

Contents

Section 1- Background Information

1.1 About the Company and the Manual

Oromia Capital Goods Finance Business S.C /OCGFB/ is financial institution engaged in finance Leases. OCGFB is currently leasing capital goods to small, micro as well as developing enterprises in order to make these enterprises competitive in all aspects and support the economy in general.

The Accounting and Auditing Board of Ethiopia compels all financial institutions to fully implement the International Financial Reporting Standard (IFRS) through its proclamation 'Financial Reporting Proclamation No.847/2014. As a result, OCGFB is expected to fully comply with IFRS in the year ended June 30,2019.

The objective of the manual is to develop a standard set of accounting policies and reporting practices which will support the on-going process of greater harmonization of the company's annual financial statements. It is intended to provide guidelines that enhance the relevance, understandability and comparability of financial statements issued by OCGFB so that the common needs of all users of these statements are met.

In recognition of the expressed preferences of the international finance community and the government proclamation as stated above, the company has developed this Accounting Policy Manual in order to fully adopt and comply with the IFRS.

1.2 Purpose

The purpose of this Accounting Policy Manual is

- To provide a comprehensive description of the OCGFB financial accounting policies under the requirement of IFRS.
- To develop a standard set of accounting policies and reporting practices which will support the on-going process of greater harmonization of the company's Annual Financial Statements.
- To provide guidelines that enhance the relevance, understandability and comparability of financial statements issued by OCGFB so that the common needs of all users of these statements are met.

1.3 The Basis of the Accounting Policy Manual

The accounting policy manuals are based on the requirements of the IFRS, in addition to the National Bank of Ethiopia (NBE) directives and other relevant proclamations, and other related principles & procedures are used under the framework.

1.4 Amendment of the Manual

The issue and implementation, and when necessary the revision, of this manual will be made with the approval of the Board of Directors of OCGFB.

This Accounting Policy Manual replace the existing accounting procedures manuals which was effective starting from January 2014 and shall come into effect from July 1,2018 onwards.

Section 2- General overview of Accounting policies and procedures

2.1 Accounting Policies

The accounting policies will be consistent with all applicable laws. These include: International Financial reporting standards (IFRS), Ethiopian Commercial code (1960), relevant National Bank of Ethiopia Directives and other legislations in the country relevant to OCGFB.

2.2 The Elements of Financial Statements and their Definition

Transactions and other events are grouped together in broad classes and in this way their financial effects are shown in the financial statements. These broad classes are called the elements of financial statements.

Stated below are elements of financial statements as laid out by IASB (International Accounting Standard Board) and their definitions: -

Five terms used under two headings – Financial position (Asset, Liability & Equity) and financial performance (Revenue and Expenses):

- **Asset**- A resources controlled by an entity as a result of past event and from which future economic benefits are expected to flow into the entity.
- **Liability** – A present obligation of the entity arising from past event, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- **Equity** – The residual interest in the assets of the entity after deducting all its liability.
- **Revenue**- Increase in economic benefits during the accounting period in the form of inflow or enhancement of assets or decrease of liability that result in increase in equity, other than those relating to contribution from equity participants.

- **Expenses**- Decrease in economic benefits during the accounting period in the form of outflow or depletion of assets or incurrences of liability that result in decrease in equity, other than those relating to equity participants.

(Conceptual framework of IASB)

Procedures resulting from the accounting pronouncements and releases are discussed next. And the policies are applicable in the following four areas: Recognition, Measurement, presentation and disclosure.

2.1.1 Recognition, Measurement, Presentation and disclosure of Elements of Financial statements

Recognition of Elements of Financial Statements

The recognition criteria for assets, liabilities, income and expenses can be summarize based on the definition given above:

Item	Recognize in	When
Asset	The statement of Financial position	It is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.
Liability	The statement of Financial position	It is probable that an outflow of resources embedding economic benefit will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably
Income	The statement of profit or loss and other comprehensive income	An increase in future economic benefits relating to an increase in as asset or a decrease of a liability has arisen that can be measured reliably
Expense	The statement of profit or loss and other comprehensive income	A decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably

Basis of Measurement of the elements of Financial Statements

Measurement is a process of determining the monetary amount at which the elements of the financial statements are to be recognized and carried in the statement of financial position and statement of profit and loss and other comprehensive income.

(Conceptual framework of IASB)

Under IFRS, the underlying assumption for preparing financial statements is that they are prepared based on the accrual basis, except for the cash flow statement.

Fair presentation and compliance with IFRS

IAS1- Presentation of Financial Statements stipulates that Financial statements (Financial position, cash flow and Performance) shall be presented fairly.

Therefore, OCGFB is required to fairly present (faithful represent) the effect of transactions and other events and conditions in accordance with the definitions and recognition criteria for Assets, Liabilities, Income and Expense set out in the conceptual framework.

In doing so IAS 1 requires ensuring the following area covered:

- Compliance with IFRS be disclosed
- All relevant IFRS must be followed if compliance with IFRS is disclosed
- Use of an inappropriate accounting treatment cannot be rectified either by disclosure of accounting policy or notes/explanatory materials.
- Presentation of financial information in a manner which provides relevant, reliable, comparable and understandable information
- And additional disclosure where required

(Conceptual framework of IASB)

Going Concern

The Conceptual Framework notes that financial statements are normally prepared assuming the entity is a going concern and will continue in operation for the foreseeable future.

[Conceptual Framework, paragraph 4.1]

IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern.

Accrual Basis of Accounting

IAS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting. [IAS 1.27]

Consistency of Presentation

The presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new IFRS. [IAS 1.45]

Materiality and Aggregation

Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial. [IAS 1.29]

Offsetting

Assets and liabilities, and income and expenses, may not be offset unless required or permitted by an IFRS. [IAS 1.32]

Disclosure of Financial Statements presented

Disclosures made both in terms of qualitative and quantitative manner soas to better understand the performance and position of the Financial Statements.

OCGFB must group transactions and events into classes appropriate to the nature of the information disclosed. Sufficient information must be provided to permit reconciliation to the line items presented in the Financial Statements in the following area:

- Carrying amount of assets and liabilities by category

- Reason for any reclassification between fair value and amortized cost (and vice versa).
- Details of the assets and liabilities risk exposure due to certain events.
- The carrying amount of assets the entity has pledged as collateral or liabilities or contingent liabilities and the associated terms and conditions.
- Defaults and breaches and any litigation cases and their probability and impact on the presentation of assets and liabilities.
- OCGFB should also disclose information relevant to assessing the impact of new IFRS on the financial statements where these have not yet come into force.

In addition, OCGFB must disclose in summary significant accounting policies, the measurement basis used in preparing the financial statements and the other accounting policies that are relevant under each element of financial statement.

2.1.2 Underlying Assumptions

These axioms provide the underlying basis for any accounting system.

1. **The Economic Entity**

This assumes that an economic activity can be identified with a particular unit of accountability and that financial transactions can be related to a specific operating activity. Without this assumption there would be no basis for accountability because transactions could not be separated from a multitude of producers.

2. **Monetary unit**

This assumes money is the common denominator by which economic activity is conducted and that the monetary unit provides an appropriate basis for measurement and analysis. The unit of account for the OCGFB is the Ethiopian Birr.

3. **Periodicity**

This assumes that the activities and, therefore, the financial flows of an entity, can be divided into any chosen time period. Financial statements of the Factory are prepared on an annual budget year basis.

4. Elements of Accounting Statements

Financial statements group transactions and other events into broad classes according to their economic characteristics which IFRS terms the "elements of financial statements".

The elements that are directly related to the Statement of Financial Positions are Assets, Liabilities and Net Assets.

The elements that are directly related to the profit and loss and other comprehensive income are Revenues and Expenses.

Section 3- IAS 1 Presentation of Financial statements

This procedure prescribes the basis for presentation of general-purpose financial statements to ensure comparability with OCGFB's financial statements of previous periods. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

OCGFB shall apply this procedure in preparing and presenting general purpose financial statements in accordance with International Financial Reporting Standards (IFRSs).

3.1 Financial Statements

OCGFB shall prepare the following financial statements:

i. a statement of financial position as at the end of the period;
ii. a statement of profit or loss and other comprehensive income for the period;
iii. a statement of changes in equity for the period;
iv. a statement of cash flows for the period;
v. notes, comprising significant accounting policies and other explanatory information; comparative information in respect of the preceding period; and
vi. A statement of financial position as at the beginning of the preceding period if OCGFB applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

OCGFB will present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

OCGFB shall present with equal prominence all of the financial statements in a complete set of financial statements.

3.2 Comparative Information

IAS 1 requires that comparative information to be disclosed in respect of the previous period for all amounts reported in the financial statements, both on the face of the financial statements and in the notes, unless another Standard requires otherwise. Comparative information is provided for narrative and descriptive where it is relevant to understanding the financial statements of the current period.

[IAS 1.38]

When the presentation of classification of items in the financial statements is amended, comparative amounts should be reclassified.

When the presentation of classification of items in the financial statements is amended, comparative amounts should be reclassified.

OCGFB's financial statements shall present fairly the financial position, financial performance and cash flows of OCGFB.

OCGFB's management shall make an assessment of OCGFB ability to continue as a going concern while preparing its financial statements. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon OCGFB's ability to continue as a going concern, OCGFB shall disclose those uncertainties.

OCGFB shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. Further, it recognizes items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements.

OCGFB shall present separately each material class of similar items and shall present separately items of a dissimilar nature or function unless they are immaterial.

OCGFB shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS and reports separately both assets and liabilities, and income and expenses.

OCGFB shall present a complete set of financial statements (including comparative information) annually.

OCGFB shall present two statements of financial position, two statements of profit or loss and other comprehensive income, two statements of cash flows and two statements of changes in equity, and related notes.

OCGFB shall present a third statement of financial position as at the beginning of the preceding period in addition to the comparative financial statements if:

- it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

In the circumstances described above, OCGFB shall present three statements of financial position as at:

i. the end of the current period;
ii. the end of the preceding period; and
iii. the beginning of the preceding period.

OCGFB shall retain the presentation and classification of items in the financial statements from one period to the next unless:

i. it is apparent, following a significant change in the nature of the company's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8; or
ii. An IFRS requires a change in presentation.

3.3 Structure and Content

OCGFB shall clearly identify the financial statements and distinguish them from other information in the same published document. In addition, it shall display the following information prominently:

- the name of OCGFB;
- the financial statements are of an individual company;

- the period covered by the set of financial statements or notes;
- the presentation currency; and
- the level of rounding used in presenting amounts in the financial statements.

3.4 Statement of Financial Position

OCGFB's statement of financial position shall include the following line items:

- Property, plant and equipment;
- Investment property;
- Intangible assets;
- Inventories;
- Financial Assets
- Trade and other receivables;
- cash and cash equivalents;
- Assets classified as held for sale and assets and Discontinued operations
- trade and other payables;
- provisions;
- financial liabilities;
- deferred tax liabilities and deferred tax assets;
- Equity; and
- Issued capital and reserves.

OCGFB shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position. Further, it shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

- no more than twelve months after the reporting period, and
- more than twelve months after the reporting period

Current Assets

OCGFB shall classify its assets as current when:

- it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- it holds the asset primarily for the purpose of trading;
- it expects to realize the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

OCGFB shall classify all other assets as non-current.

Current Liabilities

OCGFB shall classify its liability as current when:

- it expects to settle the liability in its normal operating cycle;
- it holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

  OCGFB shall classify all other liabilities as non-current.

Disclosures

OCGFB shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes, further sub classifications of the line items presented, classified in a manner appropriate to OCGFB's operations.

For each class of share capital:

- the number of shares authorized;
- the number of shares issued and fully paid, and issued but not fully paid;
- par value per share, or that the shares have no par value;
- a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

- the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
- shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
- a description of the nature and purpose of each reserve within equity.

3.5 Statement of Profit or Loss and Other Comprehensive Income

OCGFB statement of profit or loss and other comprehensive income shall present, in addition to the profit or loss and other comprehensive income sections:

- profit or loss;
- total other comprehensive income;
- comprehensive income for the period, being the total of profit or loss and other comprehensive income.

The profit or loss section or the statement of profit or loss may include line items that present the following amounts for the period:

- revenue, presenting separately interest revenue calculated using the effective interest method; gains and losses arising from the de recognition of financial assets measured at amortized cost;
- finance costs; impairment losses (including reversals of impairment losses or impairment gains);
- tax expense;

OCGFB shall recognize all items of income and expense in a period in profit or loss unless an IFRS requires or permits otherwise and shall disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit or loss and other comprehensive income or in the notes.

OCGFB shall present an analysis of expenses recognized in profit or loss using a classification based on their nature, that is, it aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs).

3.6 Statement of Changes in Equity

OCGFB shall present a statement of changes in equity that includes the following information:

- total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- for each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with IAS 8; and
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:
    a. profit or loss;
    b. other comprehensive income; and
    c. transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners.

OCGFB shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognized as distributions to owners during the period, and the related amount of dividends per share.

3.7 Statement of Cash Flows (IAS 7)

Nature and Objective

Statement of Cash Flows provides guidance on the preparation of a statement of cash flows. The objective of a statement of cash flows is to provide information on the company's changes in cash and cash equivalents during the period. The statement of financial position and statement of profit or loss are prepared on an accruals basis and do not show how the business has generated and used cash in the reporting period. The statement of profit or loss may show profits even though the company is suffering severe cash flow problems. A statement of cash flows is therefore important because it enables users of the financial statements to assess the liquidity, solvency and financial adaptability of the business.

Definitions

The following terms are used in this Standard with the meanings specified:

Cash consists of cash in hand and deposits repayable upon demand, less overdrafts. This includes cash held in a foreign currency.

Cash equivalents are 'short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value' (IAS 7, para 6).

Cash flows are 'inflows and outflows of cash and cash equivalents' (IAS 7, para 6).

Classification of cash flows

IAS 7 does not prescribe a specific format for the statement of cash flows, although it requires that cash flows are classified under one of three headings:

Cash flows from operating activities, defined as the company's principal revenue earning activities and other activities that do not fall under the next two headings

Cash flows from investing activities, defined as the acquisition and disposal of long-term assets and other investments (excluding cash equivalents)

C**ash flows from financing activities,** defined as activities that change the size and composition of the company's equity and borrowings.

Presentation of a statement of cash flows

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities. OCGFB presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business.

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

Operating activities

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the company have generated sufficient cash flows to repay loans, maintain the operating capability of the company, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

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

- cash receipts from the sale of goods and the rendering of services;
- cash receipts from royalties, fees, commissions and other revenue;
- cash payments to suppliers for goods and services;
- cash payments to and on behalf of employees;
- cash receipts and cash payments of an insurance company for premiums and claims, annuities and other policy benefits;
- cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
- cash receipts and payments from contracts held for dealing or trading purposes.

Investing activities

The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities. Examples

of cash flows arising from investing activities are:

- cash payments to acquire property, plant and equipment, intangibles and other long-term assets;
- cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- cash advances and loans made to other parties (other than advances and loans made by a financial institution);
- cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

Financing activities

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

- cash proceeds from issuing shares;
- cash payments to shareholders;
- cash proceeds from loans, bonds, and other short-term or long-term borrowings;
- cash repayments of amounts borrowed; and
- cash payments by a lessee for the reduction of the outstanding liability relating to a lease.

Reporting cash flows from operating activities

The company shall report cash flows from operating activities using either:

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

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

OCGFB uses indirect method to report its cash flows from operating activities.

The **indirect method** starts with profit before tax and adjusts it for non-cash charges and credits, deferrals or accruals of past or future operating cash receipts and payments, as well as for items that relate to investing and financing activities. The most frequently occurring adjustments required are:

- ✓ finance costs and investment incomes
- ✓ depreciation or amortization charges in the year
- ✓ impairment charged to profit or loss in the year
- ✓ profit or loss on disposal of non-current assets
- ✓ change in inventories
- ✓ change in trade receivables
- ✓ change in trade payables.

Reporting cash flows from investing and financing activities

OCGFB shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities.

Interest and dividends

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

Taxes on income

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

Example of Cash Flow Statements

Cash flows from operating activities	
Profit before tax	X
Add: finance costs	X
Less: investment income	(X)
Adjust for non-cash items dealt with in arriving at operating profit:	
Add: depreciation	X
Add: loss on impairment charged to P/L	X
Add: loss on disposal of non-current assets	X
Add: increase in provisions	X
	X/(X)
Changes in working capital:	
Increase in inventory	(X)
Increase in receivables	(X)
Decrease in payables	(X)
Cash generated/used from operations	X/(X)
Interest paid	(X)
Taxation paid	(X)
Net cash Inflow/(outflow) from operating activities	X/(X)
Cash flows from investing activities	
Payments to purchase PPE	(X)
Receipts from PPE disposals	X
Change in Leased Asset	X
Net cash inflow/(outflow) from investing activities	
X/(X)	
Cash flows from financing activities	
Proceeds from donation	X
Proceeds from loan	X
Cash repayment of loans	(X)
Lease liability repayments	(X)
Capital Contribution	(X)
Net cash inflow/(outflow) from financing activities	X/(X)
Increase/(decrease) in cash and equivalents	X/(X)
Cash and equivalents brought forward	X/(X)
Cash and equivalents carried forward	X/(X)

Section 4- Elements of Financial statements

4.1 Revenue

Income, as defined by the IASB conceptual frame work includes both revenues and gains. Revenue is income arising in the ordinary course of an entity's activities and it may be called different names, such as sales, fees, interest, dividend or royalties.

4.1.1 Nature and Definition

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary operations of the Company where those inflows result in increases in net assets. The major portion of the Company's revenue is normally derived through sales of liquor products and alcohols to the local and foreign markets.

Revenue includes only the gross inflow received and receivable by the Company on its own account. Amounts collected on behalf of third parties such as value added taxes, are not economic benefits which flow to the Company. They do not increase net assets; therefore, they are excluded from revenue.

4.1.2 Recognition Principles

Generally, revenue is recognized when the entity has transferred goods or services to the customer. IFRS 15 sets out five steps for the recognition process for customers with a contract:

Step 1- Identify the contract with customer

Step 2- Identify the separate performance obligations

Step 3- Determine the transaction price

Step 4 - Allocate the transaction price to the performance obligations

Step 5- Recognise revenue when (or as) a performance obligation is satisfied

(IFRS 15)

The outcome of the transaction can be measured reliably when all the following conditions are satisfied:

- The amount of the revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the Factory;
- when the service delivered at the balance date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

It is important to note that progress payments and advances received from trade debtors often do not reflect the services performed.

When the outcome of the transaction cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.

Revenue from the sale of finished goods should be recognized when all the following conditions have been satisfied:

- The Company has transferred to the buyer the significant risk and rewards of ownership of the goods;
- The Company does not retain effective control over the goods sold;
- The amount of revenues can be reliably measured;
- It is probable that the economic benefits will flow to the Company; and
- The costs incurred in respect of the transaction can be measured reliably.

4.1.3 Measurement

Revenue should be measured at the fair value of the consideration received or receivable.

- Cash is recorded at the face value of the cash received.
- Sales revenue should not be recognized until there is reasonable assurance.
- The Factory will comply with the conditions of service delivered to the client.
- Sales should be recognized as revenue over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

4.1.4 Presentation and Disclosure

The Company should disclose:

- The accounting policies and the methods adopted for the recognition of revenue;
- The amount of each significant category of revenue recognized during the period including revenue arising from:
    - The rendering of services;
    - The sale of finished goods;

4.2 Inventories (IAS 2)

The following terms are used in this standard with the meanings specified:

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.

[IAS 2.6]

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process.

Hence, OCGFB considers leased assets before transferring to the lessee and materials and supplies to be consumed in the rendering of services are considered as inventories.

4.2.1 Objectives

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

4.2.2 Scope

This Standard applies to all inventories, except:

a. financial instruments (see IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments); and
b. Biological assets related to agricultural activity and agricultural produce at the point of harvest (see IAS 41 Agriculture).

4.2.3 Measurement of inventories

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

4.2.4 Cost of inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
The costs of purchase of inventories 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.
Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.
Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

- abnormal amounts of wasted materials, labor or other production costs;
- storage costs, unless those costs are necessary in the production process before a further production stage;
- administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- Selling costs.

4.2.5 Cost formulas

The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

The cost of inventories shall be assigned by using the first-in, first-out (FIFO) formula for materials and supplies to be consumed and specific cost for items/equipment purchased for leased assets.

4.2.6 Net realizable value

Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business.

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

Estimates of net realizable value also take into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

4.2.7 Recognition as an expense

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

When inventories are leased and delivered to lessee, the carrying amount of those inventories shall be credited.

4.2.8 Disclosure

The financial statements shall disclose:

- the accounting policies adopted in measuring inventories, including the cost formula used;
- the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- the carrying amount of inventories carried at net realizable value;
- the amount of inventories recognized as an expense during the period;
- the amount of any write-down of inventories recognized as an expense in the period;
- the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period;
- the circumstances or events that led to the reversal of a write-down of inventories; and
- The carrying amount of inventories pledged as security for liabilities.

4.3 Fair Value Measurement (IFRS 13)

The objective of IFRS 13 is to provide a single source of guidance for fair value measurement where it is required by a reporting standard, rather than it being spread throughout several reporting standards. Many accounting standards require or allow items to be measured at fair value. Some examples from your prior studies include:

4.3.1 Scope

IFRS 13 does not apply to:

- IAS 16 Property, Plant and Equipment, which allows entities to measure property, plant and equipment at fair value
- IFRS 3 Business Combinations, which requires the identifiable net assets of a subsidiary to be measured at fair value at the acquisition date.
- share-based payment transactions (IFRS 2 Share-based Payments)
- leases (IFRS 16 Leases)

4.3.2 Definition

Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (IFRS 13, para 9).

Market participants are knowledgeable, third parties. When pricing an asset or a liability, they would take into account:

- Condition
- Location
- Restrictions on use

It should be assumed that market participants are not forced into transactions (i.e. they are not suffering from cash flow shortages). IFRS 13 notes that there are various approaches to determining the fair value of an asset or liability:

- Market approaches (valuations based on recent sales prices)
- Cost approaches (valuations based on replacement cost)
- Income approaches (valuations based on financial forecasts).

Whatever approach is taken, the aim is always the same – to estimate the price that would be transferred in a transaction with a market participant.

The price

Fair value is a market-based measurement, not one that is company specific. As such, when determining the price at which an asset would be sold (or the price paid to transfer a liability), observable data from active markets should be used where possible.

An **active market** is a market where transactions for the asset or liability occur frequently.

IFRS 13 classifies inputs into valuation techniques into three levels:

- **Level 1: inputs are quoted prices for identical assets in active markets.**
- **Level 2:** inputs are observable prices that are not level 1 inputs. This may include:
  - ✓ Quoted prices for similar assets in active markets
  - ✓ Quoted prices for identical assets in less active markets
  - ✓ Observable inputs that are not prices (such as interest rates).
- **Level 3** inputs are unobservable. This could include cash or profit forecasts using the company's own data.

A significant adjustment to a level 2 input would lead to it being categorized as a level 3 input. Priority is given to level 1 inputs. The lowest priority is given to level 3 inputs

Markets

The price received when an asset is sold (or paid when a liability is transferred) may differ depending on the specific market where the transaction occurs.

Principal market

IFRS 13 says that fair value should be measured by reference to the **principal market**. The principal market is the market with the greatest activity for the asset or liability being measured.

OCGFB must be able to access the principal market at the measurement date. This means that the principal market for the same asset can differ between companies.

Most advantageous market

If there is no principal market, then fair value is measured by reference to prices in the most advantageous market. The most advantageous market is the one that maximizes the net amount received from selling an asset (or minimizes the amount paid to transfer a liability). Transaction costs (such as legal and broker fees) will play a role in deciding which market is most advantageous. However, fair value is not adjusted for transaction costs because they are a characteristic of the market, rather than the asset.

4.3.3 The fair value of a non-financial asset

IFRS 13 says that the fair value of a non-financial asset should be based on its **highest and best use**. The highest and best use of an asset is the use that a market participant would adopt in order to maximize its value.

The current use of a non-financial asset can be assumed to be the highest and best use, unless evidence exists to the contrary. The highest and best use should take into account uses that are:

- Physically possible
- Legally permissible
- Financially feasible.

4.3.4 Disclosures

OCGFB shall disclose

- the inputs and methods used to determine how fair value measurements have been arrived at;
- The level in the three-tier valuation hierarchy, together with supporting details of valuation methods and inputs used where appropriate.

As would be expected, more detailed information is required where there is significant use of level-three inputs to arrive at a fair value measurement to enable users of financial statements to understand how such fair values have been arrived at.

Disclosure should also be made when there is a change of valuation technique to measure an asset or liability. This will include any change in the level of inputs used to determine fair value of particular assets and/or liabilities.

4.4 Property, Plant and Equipment (IAS 16)

The objective of this procedure is to prescribe OCGFB's accounting treatment for property, plant and equipment so that users of the financial statements can discern information about OCGFB's investment in its PPE and the changes in such investment. The principal issues in accounting for PPE are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.

4.4.1 Scope

This Standard shall be applied in accounting for PPE except when another Standard requires or permits a different accounting treatment.

This Standard does not apply to:

a. PPE classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
b. Biological assets related to agricultural activity other than bearer plants (see IAS 41 *Agriculture*). This Standard applies to bearer plants, but it does not apply to the produce on bearer plants.
c. The recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*).
d. Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources. However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(d).

4.4.2 Definition:

Property, Plant and Equipment (PPE) are tangible assets that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period

  Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

4.4.3 Recognition

OCGFB shall recognize the cost of an item of PPE as an asset if, and only if:

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

Initial Costs

OCGFB shall evaluate all its PPE costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of PPE and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of PPE may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of PPE, such as depreciation of right-of-use assets.

Subsequent Costs

OCGFB does not recognize in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. Rather, these costs are recognized in profit or loss as incurred. Further, OCGFB shall capitalize costs that will be incurred in the future and are expected to prolong the life or improve the efficiency and productivity of PPE.

4.4.4 Initial Measurement

OCGFB shall measure an item of property, plant and equipment that qualifies for recognition as an asset at **its cost**.

Elements of Costs

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which OCGFB 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.

Examples of directly attributable costs are:

- Purchase price less any trade discount or refund.
- Import duties and non-refundable purchase taxes.
- Directly attributable costs of bringing the asset to working condition for its intended use, e. g:
  - costs of site preparation;
  - initial delivery and handling costs;
  - installation and assembly costs;
  - costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the

asset to that location and condition (such as samples produced when testing equipment); and
    - Professional fees.
- Initial estimate of the unavoidable cost of dismantling and removing the asset and restoring the site on which it is located.

Examples of costs that are not costs of an item of property, plant and equipment are:

- costs of opening a new facility;
- costs of introducing a new product or service (including costs of advertising and promotional activities);
- costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- Administration and other general overhead costs.

Measurement of Costs

OCGFB's cost of an item of PPE is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is capitalized in accordance with IAS 23.

4.4.5 Subsequent Measurement

- OCGFB chooses **the cost model** as its accounting policy for subsequent measurement of its PPE.
- After recognition as an asset, an item of PPE shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
- OCGFB groups its assets of a similar nature and use in OCGFB's operations. The following classifications would apply to OCGFB:
    - buildings;
    - Motor Vehicles;
    - Computer & accessories
    - Software
    - Furniture and Fixtures;
    - Equipment;

4.4.6 Depreciation

- OCGFB shall depreciate each part of an item of its PPE with a cost that is significant in relation to the total cost of the item separately.
- OCGFB shall recognize the depreciation charge for each period in its profit or loss unless it is included in the carrying amount of another asset.
- The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- OCGFB shall review the residual value and the useful life of a PPE at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- OCGFB determines the depreciable amount of an asset after deducting its residual value.
- OCGFB begins depreciation of an asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.
- The useful life of an asset is defined in terms of the asset's expected utility to OCGFB. The useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of OCGFB with similar assets.
- The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by OCGFB. In this regard, *OCGFB shall use a Straight-line method to allocate the amount of its assets*.
- OCGFB shall review its depreciation method applied to an asset at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method

shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

- The use of the following rates per annum of (using estimated useful life and salvage value) property, plant and equipment are encouraged to establish uniformity within OCGFB.

Description	**Useful life**	**Rate**	**Salvage Value**
Building	40 years	2.5%	10% of Cost
Motor Vehicles	10 Years	10%	5% of Cost
Computer & Accessories	10 Years	10%	1% of cost
Software	6 Years	16.67%	0% of cost
Furniture & Fixture	10 Years	10%	1% of cost
Equipment			
Medium life	7 years	14.28%	1% of cost
Long Life	10 years	10%	1% of cost

4.4.7 Impairment

OCGFB applies IAS 36 Impairment of Assets to determine whether an item of its PPE is impaired. This detail procedure for impairment of assets is presented in the later section of this policy and procedure manual that explains how OCGFB reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

4.4.8 Derecognition

OCGFB shall derecognize the carrying amount of an item of its PPE:

- on disposal; or
- when no future economic benefits are expected from its use or disposal.

OCGFB shall include the gain or loss arising from de-recognition of an item of PPE in profit or loss when the item is derecognized. Gains shall not be classified as revenue. The gain or loss arising from the de-recognition of an item of its PPE shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

4.4.9 Disclosure

OCGFB shall disclose the following for each class of its PPE:

- the measurement bases used for determining the gross carrying amount;
- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions;
  - assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
  - impairment losses recognized in profit or loss in accordance with IAS 36;
  - impairment losses reversed in profit or loss in accordance with IAS 36;
  - depreciation; and
  - other changes.
- the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- the amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction;
- the amount of contractual commitments for the acquisition of property, plant and equipment; and
- In accordance with IAS 8, OCGFB shall disclose the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For changes in estimates with respect to:
  - residual values;
  - the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
  - useful lives; and
  - Depreciation methods.

- Are held for use in the production or supply of goods or services or for administrative purposes; and
- Are expected to be used for more than one year.

4.5 Borrowing Costs (IAS 23)

4.5.1 Nature and Scope

OCGFB shall apply this standard in accounting for borrowing costs.

The standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability. The company is not required to apply the standard to borrowing costs directly attributable to the acquisition, construction or production of:

- a qualifying asset measured at fair value, for example a biological asset within the scope of IAS 41 *Agriculture*; or
- inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

4.5.2 Definitions

Borrowing costs are interest and other costs that the company incurs in connection with the borrowing of funds.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs may include:

- interest expense calculated using the effective interest method as described in IFRS 9;
- interest in respect of lease liabilities recognized in accordance with IFRS 16 *Leases*; and

4.5.3 Recognition

OCGFB shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Further, it shall recognize other borrowing costs as an expense in the period in which it incurs them.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the company and the costs can be measured reliably.

4.5.4 Borrowing costs eligible for capitalization

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When the company borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. When such difficulty occurs, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgment is required.

To the extent that the company borrows funds specifically for the purpose of obtaining a qualifying asset, it shall determine the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The financing arrangements for a qualifying asset may result in a company obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

To the extent that the company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, it shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The amount of borrowing costs that the company capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period.

Excess of the carrying amount of the qualifying asset over recoverable amount

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realizable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

4.5.5 Commencement of capitalization

OCGFB shall begin capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalization is the date when the company first meets all of the following conditions:

(a) it incurs expenditures for the asset;
(b) it incurs borrowing costs; and
(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

4.5.6 Suspension of capitalization

OCGFB shall suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

The company may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use. Such costs are costs of holding partially completed assets and do not qualify for capitalization. However, the company does not normally suspend capitalizing borrowing costs during a period when it carries out substantial technical and administrative work.

The company also does not suspend capitalizing borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use.

4.5.7 Cessation of capitalization

OCGFB shall cease capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

An asset is normally ready for its intended use when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the company completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, it shall cease capitalizing borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use.

4.5.8 Disclosure

OCGFB shall disclose:

- the amount of borrowing costs capitalized during the period; and
- the capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

4.6 Intangible Assets (IAS 38)

The objective of this standard includes:

- To establish the criteria for when an intangible asset should be recognized.
- To specify how intangible assets should be measured.
- To specify the disclosure requirements for intangible assets.

4.6.1 Definition

Intangible assets are defined by the Standard as non -monetary assets without physical substance. They must be:

- Identifiable
- Controlled as a result of a past event
- Able to provide future economic benefits

OCGFB must identify an intangible asset in order to distinguish it from goodwill**.** Further, an intangible asset is identifiable in the following circumstances.

- If it arises through contractual or other legal rights (i.e. whether or not those rights are separable or can be transferred.)
- If it is separable (i.e. if it could be rented/sold separately although 'separability' isn't an essential feature of an intangible asset.

OCGFB must be able to enjoy the future economic benefits from the asset and prevent the access of others to those benefits as a result of Control. Economic benefits of intangible asset may come from the sale of products or services or from a reduction in expenditures (cost savings).

4.6.2 Intangible asset: Recognition and Measurement

OCGFB shall recognize its intangible asset if both of the following recognition criteria are met.

- It is probable that the future economic benefits that are attributable to the asset will flow to the entity.
- The cost can be measured reliably.

Initial Cost of Intangible Assets

OCGFB shall initially measure its intangible assets at cost.

- The costs allocated to an internally generated intangible asset should be only costs that can be directly allocated on a reasonable & consistent basis to creating, producing or preparing the asset for its intended use.
- The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria.
- If considerable costs have already been recognized as expenses before, management could demonstrate that the criteria have been met; this earlier expenditure should not be retrospectively recognized at a later date as part of the cost of an intangible asset.

- If an intangible asset is acquired separately**:** its cost can usually be measured reliably as its purchase price (including incidental costs of purchase such as legal fees, etc in getting the asset ready for use).

OCGFB may not recognize internally generated goodwill as an asset. All expenditure related to an intangible asset which does not meet the criteria for recognition either as an identifiable intangible asset or as goodwill arising on an acquisition should be expensed as incurred. Examples of expensed expenditure include startup costs, advertising costs, training costs, business relocation costs, etc

Prepaid costs for services, for example advertising or marketing costs for campaigns that have been prepared but not launched, can still be recognized as a prepayment.

Research costs shall be written off as an expense as they are incurred.

Development costs may qualify for recognition as intangible assets provided that the following criteria can be met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset & use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits (i.e. the existence of a market for the output of the intangible asset or the intangible asset itself, the usefulness of the intangible asset if it is to be used internally)
- Its ability to measure the expenditure attributable to the intangible asset during its development reliably.

OCGFB shall consider software as an intangible asset with six years useful life with zero salvage value and subsequently measure at cost.

4.6.3 Subsequent Measurement of Intangible Assets

OCGFB uses cost model for subsequent measurement of its intangible assets. That is carried at its cost, less any accumulated amortization & any accumulated impairment losses.

4.6.4 Useful life of Intangible Assets

OCGFB shall assess the useful life of its intangible assets which may be finite or infinite:

- An intangible asset has an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for OCGFB.
    - It should not be amortized but tested for impairment at least annually.
    - Its useful life should be reviewed each year to determine whether it is still appropriate to assess its useful life as infinite.
    - Reassessing the useful life of an intangible asset as finite rather than infinite is an indicator that the asset may be impaired and therefore it should be tested for impairment.
- The useful life of an intangible asset with definite useful life should also be reviewed each year.
- The useful life of an intangible asset that arises from contractual or other legal rights should not exceed period of the rights but may be shorter depending on the period over which OCGFB expects to use the asset.
- An intangible asset with a definite useful life should be amortized.
- An intangible asset with an indefinite useful life is also tested for impairment at least annually.

OCGFB shall consider software as an intangible asset with six years useful life with zero salvage value and subsequently measure at cost.

4.6.5 Disclosure requirements for Intangible Assets

OCGFB shall disclose the following information for its intangible assets

- For each class of intangible assets, disclosure is required of the following.
    - The method of amortization used.
    - The useful life of the assets or the amortization rate used.
    - The gross carrying amount, the accumulated amortization and the accumulated impairment losses as at the beginning and the end of the period.

  - A reconciliation of the carrying amount as at the beginning and at the end of the period
- Intangible assets that are assessed as having an indefinite useful life, the carrying amounts and the reasons for assessment.
- Intangible assets acquired by way of a government grant and initially recognized at fair value, the carrying amount, and whether they are carried under the cost model or the revaluation model for subsequent re-measurements.
- The carrying amount, nature & remaining amortization period of any intangible asset that is material to the financial statements of OCGFB as a whole.
- The existence (if any) & amounts of intangible assets whose title is restricted and of intangible assets that have been pledged as security for liabilities.
- The amount of any commitments for the future acquisition of intangible assets

4.7 Impairment of Assets (IAS 36)

4.7.1 Nature and definition

The carrying amount of the assets of OCGFB, other than inventories and deferred tax assets are reviewed at the reporting date to determine whether there is any indication of Impairment.

It is determined by comparing the carrying amount of the asset with its recoverable amount (the higher of its fair value less costs of disposal and its value in use).

- **Carry amount** – The net value at which the asset is included in the statement of financial position (after deducting accumulated depreciation and any impairment losses)
- **Value in use** – present value of estimated future cash flow (inflow minus out flow) generated by an asset, including its estimated net disposal value at the end of its economic life.
- **Fair value**- market price of assets in an active market for the asset or the price of recent transaction in similar assets

4.7.2 Identifying potentially impaired asset

OCGFB shall assess at the end of each reporting period if there is there are any indications of impairment to any assets. If there are indications of possible impairment, OCGFB is required to make a formal estimate of the recoverable amount of the assets concerned.

The following assets must always be tested for annually even if no indications of impairment.

- An intangible asset with an indefinite useful life.
- Goodwill acquired in a business combination.

OCGFB considers internal and external sources of information for potentially impaired assets. Internal sources may include:

- Obsolescence or physical damage,
- Adverse changes in the asset's economic performance.

External sources of information for potentially impaired asset may include

- A fall in the asset's market value that is more significant than would normally be expected from passage of time over normal use.
- A significant change in the technological, market, legal or economic environment of the business in which the assets are employed.
- An increase in market interest rates or market rates of return on investments likely to affect the discount rate used in calculating value in use.
- The carrying amount of OCGFB's net assets being more than its market capitalization.

OCGFB shall measure the recoverable amount of an asset as the higher value of

- Fair value of the asset less costs to sell (net selling price) and
- Its value in use: (PV of NCF from Operation & Net Disposal Value)

4.7.3 Recognition

OCGFB applies to all tangible, intangible and financial assets except inventories, assets arising from construction contract, assets held for sale, deferred tax assets, assets arising under IAS 19 employment benefits and financial assets within the scope of IFRS9- Financial Instrument.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount and it is recognized as an expense immediately.
An impairment loss recognized in the prior years should be reversed if and only if there has been a change in the estimate used to determine the recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount that would have been determined for the asset (net of amortization or deprecation) had not impairment loss been recognized in the prior year.

4.7.4 Measurement

If the recoverable amount of an asset is lower than the carrying amount, the carrying amount should be reduced by the difference (i.e. the impairment loss) which should be charged as an expense in profit or loss.
Where the impairment loss is to be treated as a revaluation decrease under the IFRS, this is basically mean that to the extent that there is a revaluation surplus held in respect of the asset, the impairment loss should be charged to revaluation surplus and any excess should be charged to profit and loss.
OCGFB shall use single asset base impairment model.

4.7.5 Presentation and Disclosure

Impairment loss (recoverable amount of an asset being less than its carrying amount) in the statement of financial position, an impairment loss need to be recognised and:

- Disclosed as a note to the financial statements.
- Deduction to carrying amount of an asset in statement of Financial position and loss recognised in profit and loss immediately.
- Depreciation charged on the new carrying amount

4.8 Leases (IFRS 16)

4.8.1 Objective

- It sets out the principles for the recognition, measurement, presentation and disclosure of leases.

- OCGFB shall apply this standard consistently to contracts with similar characteristics and in similar circumstances.

4.8.2 Definition

IFRS 16 introduces a comprehensive model for the identification of lease arrangement and accounting treatment for both the lessor and lessees. IFRS 16 supersedes the current lease standard IAS 17.

(IFRS 16)

IFRS 16 distinguishes leases and services contract on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right –of- use asset and a corresponding liability have to be recognised for all leases by lessees (ie all of the balance sheet) except for short-term leases and leases of low value assets.

Lease: a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Lessor - an entity that provides the right to use an underlying asset for a period of time in exchange for consideration.

Lessee - an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.

Finance lease- is a lease that transfers substantially all the risks & rewards incidental to ownership of an asset.

Operating lease- is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

4.8.3 Lessee Accounting

Initial Recognition

OCGFB will recognize a right-of-use asset and a lease liability at the commencement date. The commencement date of a lease is defined in the standard as the date on which a lessor makes an underlying asset available for use by a lessee.

Initial measurement of the right-of-use assets

At the commencement date, OCGFB shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any *lease incentives* received;
- any *initial direct* costs incurred by OCGFB; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories
- The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

Initial measurement of the lease liability

At the commencement date, OCGFB shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- Fixed payments (including in-substance fixed payments, less any lease incentives receivable)
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

[IFRS 16.23-24, IFRS 16.26-27]

Subsequent measurement of the right-of-use asset after the commencement date, a lessee shall measure the right-of-use asset applying a cost model; unless it applies either of the measurement models.

Cost Model

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

- Less any accumulated depreciation and any accumulated impairment Losses; and
- Adjusted for any re-measurement of the lease liability
- Other measurement models
- If a lessee applies the fair value model in IAS 40 Investment Property to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in IAS 40.
- If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

[IFRS 16.29-16.35

Subsequent Measurement of the right of use assets

OCGFB shall subsequently measures its right- of use asset at cost less accumulated amortization and accumulated impairment losses and adjusted for re-measurements. Right of use asset shall be depreciated over a shorter of lease term and asset's useful life.

Subsequent measurement of lease liability

After the commencement date OCGFB shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- Re-measuring the carrying amount to reflect any reassessment or lease, or to reflect revised in-substance fixed lease payments. [IFRS 16.36]

Interest on the lease liability is recognized in profit or loss.

If, after the commencement date of a lease, there is a change in the payments to be made in respect of that lease, a lessee shall recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the re-measurement in profit or loss.

[IFRS 16.39-43].

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use an asset for an agreed period of time. Leasehold land is stated at cost on the date of lease agreement. The lease cost is amortized over the lease period on straight line method. Interest payments on the outstanding lease obligation are treated as period expense in the statement of profit and Loss and other comprehensive income.

Re-measurement of leases

OCGFB may need to revisit its initial assessments if certain events occur that modify the originally assessed assumptions used to calculate the lease balances. OCGFB recognizes the effects of these re-measurements as an adjustment to the carrying value of the lease liability and right-of-use asset as at the time of re-measurement; prior period figures are not adjusted. If the carrying value of the asset is less than the amount of an adjustment, the carrying value is reduced to zero with any further reductions being recognized in the profit or loss.

Lease Modifications

Lease Modification arise when there is a change in the legal form of the lease agreement, i.e. changes to the underlying contract. The accounting for the modification is dependent on:

- whether the modified terms increase/decrease the scope of the lease, and
- Whether increases in scope require consideration commensurate with a 'standalone price' for the new scope of the lease.

If a finance lease is modified (i.e., there is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and condition of the lease), the modified lease is evaluated to determine whether it is or contains a lease. *Determining whether an arrangement contains a lease*. If a lease continues to exist, a modification to a finance lease may exist. As a result, the new lease may be an operating lease or a finance lease. Any remaining prepaid or accrued lease payments relating to the original lease are included as part of the lease payments for the new lease.

Other lessor Matters

Impairment of the net investment in the lease

- A lessor shall apply the de-recognition and impairment requirements in IFRS 9 to the net investment in the lease. A lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognize immediately any reduction in respect of amounts accrued. Lessors evaluate their net investment in the lease for impairment by applying the de-recognition and impairment requirements in IFRS 9 *Financial Instruments*.

Presentation

OCGFB presents its right of use assets and lease liabilities in its financial statements as follows

- Right-of-use assets separate from other assets and lease liabilities separate from other liabilities;
- Interest cost with other finance costs per IAS 1.
- Amortization of right-of-use assets.
- Cash payments of lease liabilities as financing activities.
- Cash payments for interest in accordance with IAS 7 requirements for interest paid.
- Short-term, low-value and variable lease payments within operating activities.

Disclosures

OCGFB shall disclose the following information related to its finance lease

- Additions to right-of-use assets.

- Carrying value of right-of-use assets at the end of the reporting period by class.
- Depreciation for assets by class.
- Interest expense on lease liabilities.
- Short-term leases expensed.
- Low-value leases expensed.
- Variable lease payments expensed.
- Income from subleasing.
- Gains or losses arising from sale and leaseback transactions.
- Total cash outflow for leases.

Other disclosure requirements also include:

- Commitments for short-term leases if the current period expense is dissimilar to future commitments.
- For right-of-use assets that meet the definition of investment property, the disclosure requirements of IAS 40, with a few exclusions.
- For right-of-use assets where the revaluation model has been applied, the disclosure requirements of IAS 16.
- A summary of the nature of its leasing activities;
- Potential cash outflows OCGFB is exposed to that are not included in the measured lease liability,

6.8.4 Lessor Accounting

OCGFB shall classify each of its leases as either an operating lease or a finance lease. OCGFB as a lessor is legally authorized and licensed to lease as a finance lease.

IFRS 16 substantially carries forward the lessor accounting model in IAS 17. The significant differences between the lessor accounting requirements in IFRS 16 and those in IAS 17 are primarily a consequence of decisions reached about the lessee accounting model in IFRS 16. IFRS 16 does change certain aspects of the lessor accounting model, including changes to the accounting for subleases, initial direct costs and lessor disclosures.

Lease classification

- A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

- A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Classification is based on the extent to which the risks and rewards incidental to ownership of the underlying asset lie with the lessor or the lessee. It depends on the substance of the transaction rather than the form of the contract. IFRS 16 lists a number of examples that individually, or in combination, would normally lead to a lease being classified as a finance lease:

- The lease transfers ownership of the asset to the lessee by the end of the lease term
- 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 date, that the option will be exercise.

The lease term is for the major part of the economic life of the asset even if title is not transferred. At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset.

Key concepts applied by lessor

Defined terms

Gross investment in the lease The sum of:

(a) The **lease payments** receivable by a **lessor** under a **finance lease**; and

(b) Any **unguaranteed residual value** accruing to the lessor. the unguaranteed residual value is the portion of the residual value of the underlying asset, the realization of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

<u>**Net investment in the lease**</u>

- The **gross investment in the lease** discounted at the **interest rate implicit in the lease**. Or A lessor's net investment in a finance lease consists of the gross investment in the lease discounted at the interest rate implicit in the lease.

Unguaranteed residual value

- That portion of the residual value of the **underlying asset**, the realization of which by a **lessor** is not assured or is guaranteed solely by a party related to the lessor.

Recognition

OCGFB recognize assets held under a finance lease at the commencement date in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

Measurement

OCGFB shall use initially the interest rate implicit in the lease to measure the net investment in the lease. The net investment in the lease shall be measured as the sum of both of the following:

- the lease receivable measured at the present value of the lease payments; and
- the residual asset measured at the present value of any residual value accruing to the lessor.

Any advance payment received from lessee shall be deducted to arrive at net investment in the lease.

Subsequently, OCGFB recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on its net investment in the lease.

Presentation and disclosures

OCGFB shall disclose the following information:

- Selling profit or loss;
- Finance income on the net investment;
- Income from variable lease payments;
- Qualitative and quantitative explanation of changes in the net investment;
- Lease income, separately disclosing variable lease payments;
- Disclosure requirements of IAS 16 for leased assets, separating leased assets from non-leased assets;
- Other applicable disclosure requirements based on the nature of the underlying asset (eg. IAS 36, 38, 40, 41); and

Qualitative Disclosure Requirements

- Information about its leasing activities
- leasing activities and how the lessee manages risks associated with those activities,
- risk management strategies including:
- Buy-back agreements if any;
- Residual value guarantees;
- Variable lease payments for excess use; and
- Any other risk management strategies.

4.9 Non-current Assets held for Sale & Discontinued Operations (IFRS 5)

OCGFB shall classify a non-current asset as held for sale if the assets carrying amount will be recovered principally through a sale transaction rather than through continuing use. In general, the following conditions have to be met in order for an asset to be held for sale.

- Management is committed to a plan to sale;
- The asset is available for immediate sale;
- An active program to locate a buyer and the sale must have been initiated;
- The sale is highly probable, within 12 months of classification as held for sale (however an extension of the period to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Bank and if OCGFB remains committed to its plan to sale the asset);
- The asset is being marketed at a reasonable price in relation to its fair value.

Based on the above conditions, OCGFB may classify reposes leased assets Non-Current Asset Held for Sale.

4.9.1 Measurement

Non-current asset held for sale classified as held for sale shall be measured at lower of its carrying amount and fair value less costs to sale.

- If repossessed asset from defaulted lessee meets the criteria to be classified as held for sale, it shall be initially recognized at the lower of its fair value less cost to sale and carrying amount lease receivables.
- No depreciation/amortization shall be charged on non-current asset while it is classified as held for sale (even if asset is still used).

4.9.2 Recognition of impairment loss and reversal

An impairment loss shall be recognized for any initial or subsequent write-down of assets carrying amount to fair value less cost to sale.

A gain shall be recognized for any subsequent increase in fair value less cost to sale, but not in excess of cumulative impairment loss that has been recognized before.

4.9.3 Change to plan a sale

If OCGFB changes its plan to recover a non-current assets held for sale carrying amount through a sale transaction for whatever reason, classifying the asset as held for sale shall be immediately curtailed and asset shall be measured at the lower of:

- Its carrying amount before the asset was classified as held for sale adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale, and
- Its recoverable amount at the date of subsequent decision not to sale the asset.

4.9.4 Presentation

OCGFB shall present a non-current asset that meets the criteria to be classified as held for sale separately in the statement of financial position.

4.9.5 Disclosures

OCGFB shall disclose the following information:

- a description of the non-current asset;
- a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
- the gain or loss recognized, if any;

4.10 Financial Instruments (IFRS 9, IAS 32 and IFRS 7)

4.10.1 Nature and Definition

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

4.10.2 Recognition and Measurement

OCGFB shall recognize a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

OCGFB shall initially measure financial asset or financial liability at fair value. Further, it shall subsequently measure financial assets and liabilities at amortized cost under IFRS, for financial instruments carried at amortized cost, the effective interest method is used to calculate the amortized cost and for allocating the interest income or interest expense over the relevant period to profit or loss.

The effective interest rate (EIR) is that rate that exactly discounts the estimated future cash payments or receipts through the instruments' expected life to the net carrying amount of the financial asset or financial liability.

Under IFRS, the net carrying value of the financial instrument at amortized cost includes any direct transaction costs. Transaction costs that are directly attributable to the issue and/or acquisition of a financial instrument are included in the initial measurement of that instrument and are included in the net carrying value when calculating the effective interest rate. The effect is that the transaction costs are amortized over the expected life of the instrument.

Fees or costs that are not part of the effective interest rate are accounted for as revenue or expenses respectively.

Except for trade receivables, which will be initially measured at their transaction price if it doesn't contain significant financing component, at initial recognition, financial assets shall be measured at their fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

4.10.3 Financial Assets

A financial asset is any asset that is:

- cash
- an equity instrument of another entity
- a contractual right to receive cash or another financial asset from another entity
- a contractual right to exchange financial instruments with another entity under conditions that are potentially favorable to the entity

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Market value is the amount obtainable from the sale of a financial instrument in an active market.

IFRS 9 classifies financial assets based on two characteristics. Financial assets shall be classified as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both

1. Business model test: It is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
2. Contractual cash flows' characteristics test: The contractual terms of the financial assets provides contractual cash flows that are solely payments of principal and interest on the principal outstanding. Examples: debt securities, receivables, loans.

Based on these two tests, the financial assets of OCGFB can be classified in Amortized cost.

Amortized Cost

A financial asset falls into this category because both of the following conditions are met:

Business model test is met, i.e. OCGFB hold the financial assets only to collect contractual cash flows (not to sell), and

Contractual cash flows' characteristics test is met, i.e. the cash flows from the asset are only the payments of principal and interest. Examples: debt securities, receivables, loans. In line with the standard, OCGFB shall recognize a financial asset in the in the statement of financial position for those assets that met the definition of financial instrument and OCGFB becomes a party of the contractual provision of the instrument. Accordingly, OCGFB shall recognize the following assets as financial asset in the statement of financial position such as:

- Cash and Cash equivalent
- Fixed time deposits
- Short term investment
- Trade receivables
- Staff receivables

Short term investments and fixed time deposits

These assets shall be measured at **"Amortized cost"** due to business model test is met, i.e. OCGFB holds the financial assets (short term investments) only to collect contractual cash flows (not to sell them), and Contractual cash flows' characteristics test also met, i.e. the cash flows from the asset are only the payments of principal and interest.

Trade receivable:

It is measured at "Amortized cost". This is because the management intension is to hold until maturity date and to collect only principal & interest (if any).

Staff receivables and cash & cash equivalents

These assets shall be classified and measured at amortized cost.

For the financial assets that are measured at amortized cost:

- Initially, the asset is measured at fair value plus transaction costs except, trade receivables with no significant financing components which are generated from regular sales of goods and services measures at the amount of date of transaction price in line with IFRS 15.
- Subsequently, the assets shall be measured at amortized cost.
- Interest income is calculated and recognized in profit or loss using the effective date of interest.

Effective interest rate considers all the fees and transaction fees incidental to the original contract.

Equity Instruments

An equity instrument is: any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities' (IAS 32, para 11).

Investments in equity instruments (such as an investment in the ordinary shares of another entity) are measured at either:

- Fair value either through profit or loss: if the equity instrument held for trading.
- Fair value through other comprehensive income. If the equity instrument:
  - Must not be held for trading, and
  - There must have been an irrevocable choice for this designation upon initial recognition of the asset.

OCGFB shall classify equity instruments in fair value through other comprehensive income because the equity instruments will not be held for trading and irrevocably chose upon initial recognition of the equity instruments.

Impairment of Financial Assets

OCGFB shall recognize a loss allowance for expected credit loss for its financial asset measured at amortized cost and leased assets (i.e net investment in lease) and OCGFB shall apply simplified approach of lifetime expected losses. The rate shall be determined in every reporting period and same shall be approved by board of directors.

4.10.4 Financial Liability

A financial liability: is any liability that is a:

- contractual obligation to deliver cash or another financial asset to another entity,
- contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavorable,
- a non-derivative contract for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments.' (IAS 32, para 11).

IFRS 9 classifies financial liabilities as follows:

1. Financial liabilities at fair value through profit or loss: these financial liabilities are held for trading, all derivatives and liabilities designated initially at FVTPL and subsequently measured at fair value.

2. Other financial liabilities measured at amortized cost all other liabilities which shall measure using the effective interest method

OCGFB will identify and classify its financial liabilities at amortized cost as this will determine the subsequent measurement of the financial liability on and after the transition date.

Based on this, OCGFB shall classify and measure its financial liabilities as follows:

- Trade payables, borrowings and pension payable shall recognize as financial liabilities at the statement of financial position and shall be classifies and measured at amortized cost.
- Initially, financial liabilities which are classified under amortized cost shall be measured fair value and transaction cost.
- Subsequently, the financial liabilities will be measured at amortized cost using the effective interest rate method.
- Any interest expenses shall be recognized in the profit losses.

4.10.5 Financial statements disclosures (IFRS 7)

IFRS 7 requires OCGFB to include financial risk management disclosures on financial instruments in the financial statements. These include qualitative and quantitative notes on the OCGFB's risk exposures, risk management policies and processes.

4.11 Accounting for Government Grants (IAS 20)

4.11.1 Nature and Definitions

Government grants are 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. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

This Section does not deal with:

- The special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.

- Government assistance that is provided for the Company 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.
- Government participation in the ownership of the OCGFB.

4.11.2 Definitions

Government: local or international government & government agencies.

Government assistance: action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under **s**pecified criteria.

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

Grants related to assets: Government grants whose primary condition is that an entity qualifying for them should purchase or construct non-current assets.

Grants related to income: Government grants other than those related to assets.

Forgivable loans: Loans which the lender undertakes to waive repayment of under certain prescribed conditions.

4.11.3 Recognition & Measurement of Government grants

Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

- The entity will comply with the conditions attaching to them; and the grants will be received.
- Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

OCGFB recognizes and measures its government grants as follows:

- Government grants should be recognized as income over the relevant periods to match them with related costs which they have been received to compensate.

(Current Income or Deferred Income under accrual assumptions). Grants should not, therefore, be credited directly to equity.

- A receipts basis/Cash base would only be acceptable if no other basis was available.
- Where grants are received in relation to a depreciating asset, the grant will be recognized over the periods in which the asset is depreciated and in the same proportions

4.11.4 Presentation

Presentation of grants related to Assets in the Statement of Financial Position (SEP)

OCGFB may present its grants related to assets in the SFP either

- Set up the grant as deferred income. (Liability), or
- Deduct the grant in arriving at the carrying amount of the asset. (Contra account to asset)

Presentation of grants related to Income in the Statement of Profit or Loss (SPL)

OCGFB may present its grants related to income in the SPL either

- A separate credit or under a general heading, e.g. "other income". (extra income), or
- Deduct from the related expense. (Cost coverage partly as a grant)

Non-monetary government grants- A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.

4.11.5 Disclosures

OCGFB disclose the following information related to government grants

- Accounting policy adopted, including method of presentation.
- Nature and extent of government grants recognized, and other forms of assistance received.

- Unfulfilled conditions and other contingencies attached to recognized government assistance.

4.12 Investment Property (IAS 40)

4.12.1 Definition

Investment property – is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or administrative purposes, or
- Sale in the ordinary course of business

4.12.2 Recognition of Investment Property

OCGFB shall recognize its Investment property as an asset when two conditions are met.

- Probable future economic benefits inflow,
- Cost of the investment property measured reliably**.**

4.12.3 Initial measurement of Investment Property

OCGFB shall measure its investment property initially at its cost, including transaction costs.

4.12.4 Subsequent Measurement Investment Property

OCGFB chooses Cost model for subsequent measurement of its investment property, i.e Investment property shall be measured at:

- Depreciated cost (-) accumulated impairment losses or
- Cost (-) Accumulated Depreciation & Impairment

OCGFB shall disclose the fair value of its investment property.

4.12.5 Transfers to Investment Property

- It should only be made when there is a change in use.
- When there is a transfer from Investment Property carried at FV to owner-occupied property (IAS 16) or Inventories (IAS 2), the property's cost for subsequent accounting should be its FV at the date of change of use.

4.12.6 Disposals of Investment Property

OCGFB accounting treatment for disposals of its investment property includes:

- Shall derecognize (eliminate from the SFP) an investment property on disposal.
- Any gain or loss on disposal = Net disposal proceeds (-) carrying amount of the asset. (SP/L)
- Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in SP/L when the compensation becomes receivable.

4.12.7 Disclosure

OCGFB shall disclose the following:

- Choice of its measurement method that is cost model
- Whether property interests held as operating leases are included in investment property
- Criteria for classification as investment property
- Rental income and expenses
- Any restrictions or obligations

4.13 Employee Benefits (IAS 19)

The objective of this standard is to prescribe the accounting and disclosure for employee benefits, i.e.:

- When the cost of employee benefits should be recognized as a liability or an expense.
- The amount of the liability or expense that should be recognized

  Employee benefits are all forms of consideration given by OCGFB in exchange for service rendered by employees or for the termination of employment.

4.13.1 Categories of Employee Benefits

There are four categories of employee benefits that need a different accounting treatment for each.

Short-term employee benefits – are expected to be settled wholly before twelve months after the end of the annual reporting period. Example: Wages and salaries, Social security contributions, paid annual leave, paid sick leave, Paid maternity/paternity leave, Profit shares and bonuses, Non-monetary benefits, e.g. medical care, housing, cars, free or subsidized goods, etc.

Termination benefits – they are provided in exchange for the termination of an employee's employment as a result of either:

- OCGFB's decision to terminate an employee's employment before the normal retirement date, or
- An employee's decision to accept an offer of benefits in exchange for the termination of employment. Example: early retirement payments &redundancy payments.

Post-employment benefits-are employee benefits (other than termination benefits & short-term employee benefits) that are payable after the completion of employment. Example: Pensions &Post-employment medical care &insurance.

Other long term employee benefits-are all employee benefits other than short-term, post-employment & termination benefits. Example: Sabbatical leave, Long-service & long-term disability benefits, etc.

Such benefits include items such as the following, if not expected to be settled wholly before 12 months:

- Long-term paid absences such as long service or sabbatical leave;
- Jubilee/anniversary or other long-service benefits;
- long-term disability benefits;
- profit-sharing & bonuses; and
- Deferred remuneration.

4.13.2 Recognition & Measurement

Short-term employee benefit costs OCGFB will recognize it short term employee benefit as follows:

- Simply recognized as an expense in the employer's Financial Statement of the current period.
- Unpaid short-term employee benefits at the end of an accounting period should be recognized as an accrued expense such as accrued leave pay.

- Any short-term benefits paid in advance should be recognized as a prepayment (i.e. reduction in future payments or a cash refund).
- Short-term compensated absences: Recognize a cost and liability = the undiscounted amount of benefits expected to be paid
- Some benefits accumulate, accrue as employee provides services (e.g., paid vacation leave)
- Some do not accrue (e.g., Sick Leave, Maternal/paternal leave), recognize cost and liability when event occurs that obligates the entity to provide the benefit
- Profit-sharing & bonus plans: Recognize cost & liability only when
  - a legal or constructive obligation exists, &
  - amount can be reasonably estimated
- To reasonably estimate must have one of the following:
  - plan has formal terms including a formula
  - amount is known before Financial Statements are authorized for release
  - past practice provides clear evidence of amount

Deferred employee benefits costs

OCGFB may recognize its deferred employee benefits as follows

Termination Benefits

- Recognize liability and expense at the earlier of:
  - The date OCGFB can no longer withdraw the benefit or offer
  - The date OCGFB recognizes restructuring costs under IAS 37.
- If termination benefits settled wholly before 12 months from reporting date, apply requirements for short-term employee benefits.
- If termination benefits are not settled wholly before 12 months from reporting date, apply requirements for other long-term employee benefits.

Other long term Employee benefits

Statement of financial position

- Carrying amount of liability = PV of obligation (-) Fair Value of any plan assets;
- Actuarial gains & losses & past service costs are recognized immediately in OCI and SP/L respectively in the Statement of Comprehensive Income.

Statement of comprehensive income

- Recognize the net total of: Current service cost (+) Net interest on net defined benefit liability/(asset) (+) re-measurement of the net defined benefit liability/(asset).

Other Long-term Employee Benefits Expenses = Current Service Cost + Int. Cost – Expected Return on ANY plan Asset + Actuarial Gains or losses + All Past Service Costs

Other Long-term Employee Benefits Liabilities =PV of DBO – Fair Value of Any Plan Assets

Post-employment benefits

There are two types of post-employment benefit plan:

Defined contribution plans are post-employment benefit plans that OCGFB pays:

- fixed contributions into a separate entity (a fund) &
- no further liability to pay and
- no exposure to risks if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

OCGFB has the following accounting treatment for Defined contribution plans.

- Contributions to a defined contribution plan should be recognized as an expense in the period they are payable.
- Any liability for unpaid contributions that are due as at the end of the period should be recognized as a liability (accrued expense).
- Any excess contributions paid should be recognized as an asset (prepaid expense).

Defined benefit plans are post-employment benefit plans other than defined contribution plans that an entity pays:

- fixed contributions into a separate entity (fund).
- further liability to pay and
- exposure to risks if the fund/plan assets are insufficient to meet the plan liabilities to pay pensions in future, the entity will have to make up any deficit.

4.13.3 Recognition & Measurement - Defined benefit plans

Accounting for defined benefit plans is much more complex because of:

- The future benefits (arising from employee service in the current or prior years) cannot be measured exactly but the liability should be recognized now. To measure these future obligations, it is necessary to use actuarial assumptions.
- The obligations payable in future years should be valued, by discounting, on a present value basis. This is because the obligations may be settled in many years' time.
- If actuarial assumptions change, the amount of required contributions to the fund will change, and there may be actuarial gains or losses. A contribution into a fund in any period will not equal the expense for that period, due to actuarial gains or losses.

OCGFB recognize all actuarial gains/losses in OCI when they occur, and then directly to R/Earning – not through P&L.

- PV of a defined benefit obligation – the discounted PV of the expected future payments required to settle OCGFB's obligation resulting from employee service accumulated to date.
- Plan assets – assets held by the long-term employee benefit fund that exists solely to pay employee benefits as they fall due.

Changes in the PV of the defined benefit obligation (DBO): based on projected salaries:

PV of the obligation (beginning of period)

+ Current period's service cost

+ Interest cost on the outstanding obligation for

+/- Past service costs from plan amendments in the period

- Benefits paid under the plan in the period

+/- Actuarial gains (-) &losses (+) in the period

= Present value of the obligation (End of Year)

4.13.4 Presentation and Disclosure

OCGFB shall disclose the following information

- the amount recognized as an expense for defined contribution plans
- The cost of the employee's benefits should be presented as a liability or an expense in the period they occur

- IAS 19 requires extensive disclosures in respect of defined benefit plans including narrative descriptions of:
    - the regulatory framework;
    - funding arrangements;
    - potential (non-) financial risks;
    - And/or asset ceiling tests.

4.14 Provisions, Contingent Assets and Liabilities (IAS 37)

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

4.14.1 Definitions

A provision is a liability of uncertain timing or amount.

A legal obligation is an obligation that derives from:

- a contract (through its explicit or implicit terms);
- legislation; or
- other operation of law.

A constructive obligation is an obligation that derives from the OCGFB’s actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- as a result, OCGFB has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A contingent liability is:

- 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 OCGFB; or
- a present obligation that arises from past events but is not recognized because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - the amount of the obligation cannot be measured with sufficient reliability.

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.

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.

A restructuring is a programmer that is planned and controlled by management, and materially changes either:

- the scope of a business undertaken by an entity; or
- the manner in which that business is conducted

4.14.2 Recognition of Provisions

OCGFB shall recognize provisions when:

- It has a present obligation - legal/constructive.
- It is probable that a transfer of resources embodying economic benefits will be required to settle it and;
- A reliable estimate can be made of its amount of the obligation.

OCGFB shall not recognize a contingent liability; rather it disclosed contingent liability unless the possibility of an outflow of resources embodying economic benefits is remote views provisions as a liability

OCGFB shall not recognize a contingent asset. It will disclose a contingent asset where an inflow of economic benefits is probable. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to OCGFB.

4.14.3 Measurement of provisions

The following are OCGFB's information related to measurement of provisions:

- It uses the best estimate of the expenditure required to settle the present obligation at the end of the reporting period to recognize the amount of a provision
- Future events are reasonably expected to occur (e. g. new legislation, changes in technology) may affect the amount required to settle OCGFB's obligation and should be taken into account.
- Gains from the expected disposal of assets should not be taken into account in measuring a provision.
- Some or all of the expenditure needed to settle a provision may be expected to be recovered from a third party should be recognized only when it is virtually certain that reimbursement will be received if OCGFB settles the obligation.
- Provisions should be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.
- If it is no longer probable, that a transfer of resources will be required to settle the obligation, the provision should be reversed.
- A provision should be used only for expenditures for which the provision was originally recognized.
- Setting expenditures against provision that was originally recognized for another purpose would conceal the impact of two different events.
- Provisions should not be recognized for future operating losses.
- They do not meet the definition of a liability and the general recognition criteria set out in the standard.
- If OCGFB has an onerous contract, the present obligation should be recognized & measured as a provision.

4.14.4 Presentation and Disclosure

Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement

For each class of provision, OCGFB shall disclose:

- the carrying amount at the beginning and end of the period;
- additional provisions made in the period, including increases to existing provisions;
- amounts used (ie incurred and charged against the provision) during the period;
- unused amounts reversed during the period; and
- the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.
- a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, OCGFB shall disclose the major assumptions made concerning future events; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

Unless the possibility of any outflow in settlement is remote, OCGFB shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

- an estimate of its financial effect,
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- The possibility of any reimbursement.

Where an inflow of economic benefits is probable, OCGFB shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect.

4.15 Related Party Disclosures (IAS 24)

The objective of this Standard is to ensure that OCGFB's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

4.15.1 Definitions

- A related party is a person or entity that is related to OCGFB.
- The party is a member of the key management personnel.
- A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with OCGFB and include:

4.15.2 Disclosures

OCGFB shall disclose its related party information if it believes that a person or an entity has an influence on its operations. In this regards, OCGFB shall disclose the following related party information:

- It shall disclose its major shareholders, board of directors, and key management members and other person or entities who have influential power;
- It shall disclose its board of directors and key management personnel compensation in total and for each of the following categories: Short- term, post-employment and other long-term, termination benefits and share based payments
- If it has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:
    - the amount of the transactions;

- the amount of outstanding balances, including commitments, their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and details of any guarantees given or received;
- provisions for doubtful debts related to the amount of outstanding balances; and
- The expense recognized during the period in respect of bad or doubtful debts due from related parties.

4.16 Income Tax (IAS 12)

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in OCGFB's statement of financial position; and
- transactions and other events of the current period that are recognized in OCGFB's financial statements

4.16.1 Natures and Definitions

Income tax: All domestic &foreign tax based on taxable profit**.**

Accounting profit: is profit or loss for a period before deducting tax expense based on IFRS.

Taxable profit (loss):is the profit (loss) for a period, determined in accordance with the tax rules/laws established upon which income taxes are payable (recoverable).

Tax expense (income): The aggregate amount included in the determination of net profit/loss for the period in respect of current tax and deferred tax. It comprises current tax expense (current tax income) and deferred tax expense (deferred tax income)

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

Tax based on revenue ≠ income tax: Sales tax, VAT, tax on capital, and social security tax ≠ income tax /direct tax

Income tax = tax rate **x** taxable profit

Current tax: is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. It is liability for any tax payable on current or prior taxable profit. It is measured using tax law enacted or substantively enacted at reporting date

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

- deductible temporary differences;
- the carry-forward of unused tax losses; and
- the carry-forward of unused tax credits.

Temporary differences - are differences between the carrying amount of an asset or liability in the SFP and its tax base. Temporary differences may be either:

a. **Taxable temporary differences -** which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
b. **Deductible temporary differences -** which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

4.16.2 Income tax in Ethiopia

- Includes all taxes that are based on taxable income
- Taxable Income" shall mean the amount of income subject to tax after deduction of all expenses and other deductible items allowed under Income Tax Proclamation No. 979/2016
- IAS 12 excludes taxes that are not based on income tax.

4.16.3 Temporary vs. Permanent differences

Temporary differences for OCGFB includes

- They have deferred tax consequence and reverse in future periods.

- Deferred tax is an accounting measure rather than a tax levied by government used to match the tax effects of transactions with their accounting impact and thereby produce less distorted results.
- Differences in depreciation method for Financial reporting & for tax purpose (effect is shown on P/L statement)
- Provisions recorded for litigation, (effect is shown on P/L statement)
- Bad debt expenses (effect is shown on P/L statement)
- Unrealized gains/losses resulted from (effect is shown on OCI)
- Revenues collected in advance

Permanent differences for OCGFB include

- Some items of revenue and expense that a corporation reports for financial accounting purposes are never reported for income tax purposes.
- They do not have deferred tax consequence and they never reverse in a later accounting period.

4.16.4 Recognition & Measurement of current tax

- OCGFB recognizes its current tax as liability for any tax payable on current or prior taxable profit and as an asset if overpayment is recoverable
- OCGFB measures its current tax using tax law enacted or substantively enacted at reporting date;
- OCGFB shall measure its current tax liabilities (assets) for the current and prior periods:
    - at the amount expected to be paid to (recovered from) the taxation authorities,
    - using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
- OCGFB presents as a current period expense or income, but if current tax relates to an item of OCI, that tax is presented as part of OCI.

4.16.5 Recognition & Measurement of deferred tax

OCGFB recognizes:

- Deferred tax liability for all temporary differences that will increase taxable profit in the future.
- Deferred tax asset for all temporary differences that will reduce taxable profit in the future.

4.16.6 Presentation

OCGFB classify all deferred tax assets and liabilities as noncurrent.
OCGFB do not offset current tax assets and liabilities or deferred tax assets and liabilities unless entity has legal right to offset and it intends either to settle net or simultaneously.

4.16.7 Disclosure

OCGFB shall disclose major components of tax expense including:

- Current tax expense (income)
- Adjustments to current tax of prior periods
- Deferred tax expense (income) relating to:
- New or reversing temporary differences
- Changes in tax rates or new taxes
- Tax expense relating to changes in accounting policies or errors

Other disclosures:

- Current and deferred tax relating to items of OCI
- Explanation of significant differences in amounts in P&L and amounts reported to tax authorities
- Changes in tax rates

Section 5- Events after the Reporting Period (IAS 10)

5.1 Objective

The objective of this standard is to prescribe

- When OCGFB should adjust its financial statements for events after the reporting period; and
- the disclosures that OCGFB should give about the date when the financial statements were authorized for issue and about events after the reporting period.

5.2 Definitions

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

5.3. Recognition and Measurement

There are two types of events after reporting period

Adjusting events after the reporting period

OCGFB shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period. The following are some of the examples for adjusting events after the reporting period that require OCGFB to adjust the amounts recognized in its financial statements or to recognize items that were not previously recognized

The settlement after the reporting period of a court case that confirms that OCGFB had a present obligation at the end of the reporting period. The entity adjusts any previously recognized provision related to this court case in accordance with IAS 37 Provisions, Contingent Liabilities *and Contingent Assets* or recognizes a new provision.

The receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:

- the bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period;

The determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

Non-adjusting events after the reporting period

OCGFB shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period. For example, a decline in fair value of investments between the end of the reporting period and the date when the financial statements are authorized for issue, because the decline in fair 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, OCGFB does not adjust the amounts recognized in its financial statements for the investments.

If OCGFB declares dividends to holders of equity instruments after the reporting period, it shall not recognize those dividends as a liability at the end of the reporting period. Further, if dividends are declared after the reporting period but before the financial statements are authorized for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with IAS 1 *Presentation of Financial Statements*.

5.4 Disclosures

OCGFB shall disclose:

- the date when the financial statements were authorized for issue and who gave that authorization.

- If it receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

This section should be applied in presenting the surplus or deficit from:

- Accounting for changes in accounting estimates;
- Accounting for material errors; and
- Changes in accounting policies.

Section 6- Accounting Policies, Changes in Accounting Estimates and Errors (IAS-8)

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of OCGFB's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

6.1. Definitions

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

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.

6.2. Accounting Policies

OCGFB shall select and apply the appropriate accounting policies for a transaction determined by IFRS. In the absence of an IFRS that specifically applies to a transaction, other event or condition, OCGFB (S.C) management shall use its judgment in developing and applying an accounting policy that results in information that is:

- relevant to the economic decision-making needs of users; and
- reliable, in that the financial statements

In making the judgment, management shall refer to, and consider the applicability of, the following sources in descending order:

- the requirements in IFRSs dealing with similar and related issues; and

- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses

In making the judgment, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices.

OCGFB shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorization of items for which different policies may be appropriate.

OCGFB shall change an accounting policy only if the change:

- is required by an IFRS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on OCGFB's financial position, financial performance or cash flows.

OCGFB shall change its accounting policies, if

- a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS; and
- when it changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

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

When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, OCGFB 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.

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

6.3 Disclosures

OCGFB shall disclose, when initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods:

- the title of the IFRS;
- when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- the nature of the change in accounting policy;
- when applicable, a description of the transitional provisions;
- when applicable, the transitional provisions that might have an effect on future periods;
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment;
- the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

  Financial statements of subsequent periods need not repeat these disclosures.

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

- the nature of the change in accounting policy;
- the reasons why applying the new accounting policy provides reliable and more relevant information;
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment;
- the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

  Financial statements of subsequent periods need not repeat these disclosures.

6.4 Changes in Accounting Estimates

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

- bad debts;
- inventory obsolescence;
- the fair value of financial assets or financial liabilities;
- the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
- warranty obligations.

OCGFB shall recognize prospectively the effect of a change in an accounting estimate by including it in profit or loss in:

- the period of the change, if the change affects that period only; or
- the period of the change and future periods, if the change affects both.

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

6.5 Disclosure

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

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

6.6 Errors

OCGFB shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- 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.

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

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

6.7 Disclosure of Prior Period Errors

OCGFB shall disclose the following:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction:
- the amount of the correction at the beginning of the earliest prior period presented; and
- if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

  Financial statements of subsequent periods need not repeat these disclosures.

This standard should be applied in the accounting for, and disclosure of, events after the balance date**.**