Financial Disclosure Levels and Corporate Transparency: Corporate Governance and Other Influential Factors in Chinese Companies Revealed

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# TABLE OF CONTENTS

1. Introduction ......................................................................................................................... 3
   1.1 Country Profile - China .................................................................................................. 3

2. Literature Review ................................................................................................................... 4
   2.1 What is transparency? .................................................................................................... 4
       2.1.1 Transparency measured as compliance ................................................................. 5
   2.2 Review of Disclosure Literature .................................................................................... 5
       2.2.1 Why do firms disclose voluntarily? ........................................................................ 6
       2.2.2 Disclosure motivation for Chinese firms ................................................................. 6

3. Hypothesis Development .................................................................................................... 7
   3.1 Financial transparency and Firm specific factors ......................................................... 7
   3.2 Financial transparency and ownership .......................................................................... 8
   3.3 Financial transparency and corporate governance ....................................................... 8
   3.4 Financial transparency and auditor type ...................................................................... 9
   3.5 Financial transparency and type of shares issued ......................................................... 9
   3.6 Financial transparency and corporate complexity ....................................................... 10

4. Research Methodology ....................................................................................................... 10
   4.1 Sample Selection .......................................................................................................... 10
   4.3 Transparency Measure ............................................................................................... 11
   4.4 Regression Model ....................................................................................................... 12

5. Discussion and Conclusion ................................................................................................. 12
   5.1 Foreseeable Limitation ............................................................................................... 12
   5.2 Potential Contributions ............................................................................................... 12

6. Reference ............................................................................................................................ 13

7. Appendices .......................................................................................................................... 17
1. Introduction

The recent trend towards globalisation, whether at a firm, country, or capital market level, has provided researchers in many disciplines with exciting research opportunities. One feature of globalisation has been convergence among countries on key issues. Accounting standard convergence is one example. Many countries already have their own accounting standards evolved from their unique culture, history and development of capital markets. However, in June 2000, the European Commission (2000) proposed that European Countries should adopt the International Accounting Standards (IASs) by 2005, voicing concerns that existing inconsistencies between the countries’ accounting standards would bring about confusion. Many other countries, for example Australia, have also recently decided to switch to the IASs. The increase of cross-country investments has also driven various countries to converge to the IASs in hope of reaping the benefits of comparability, accountability to investors and transparency. These benefits are expected to improve the efficiency of resource allocation by assisting users of financial information in making capital market related decisions.

This study aims to examine the level of disclosure and transparency of Chinese listed companies in 2002. More specifically, it will measure the financial reporting transparency of Chinese companies, and determine what firm characteristics are associated with it. Transparency in this study is measured as the level of compliance with International Accounting Standards and Chinese accounting standards.

1.1 Country Profile - China

Accounting in China has traditionally served the purpose of reporting information to the government in a centrally controlled economy. The economic reforms in the late 1970s moved China towards a market-oriented economy, and shifted the role of accounting and accounting information. The privatisation of state-owned enterprises (SOE) in 1978 by the Chinese government brought about minimal incentives for companies to disclose information because the state was still the largest shareholder (Xiao et al 2004). The rapidly growing economy and capital markets encouraged more disclosure and transparency from companies. However, financial reporting transparency of Chinese companies is still widely criticised. International investors can be easily confused by the differences in accounting standards and the difficulties in understanding the Chinese accounting and corporate culture (Lin and Chen 1999).

Accounting Reform began in 1988, where the initial intention was to adapt the old accounting system to the contemporary market economy, to provide information to the new set of informational users, but this was abandoned. The first milestone for accounting standards was the issuance of the Accounting Standards for Business Enterprises (ASBE) in 1992, and the subsequent Accounting Regulations for Listed Companies (ARLC) in 1998 and revised in 2001\(^1\) (herein collectively referred to as People’s Republic of China Generally Accepted Accounting Practices (“PRC GAAP’’)). These are based on the IASs and adapted to suit the local environment in China. For example, whilst the IASs allows managerial choice on certain accounting policies, the ASBE offers comparatively fewer choices. The accounting standards in China are still under development, so many specific standards are yet to be introduced. Furthermore, there are many obstacles in introducing standards that are different to the country’s previous standards.

\(^{1}\) The ASBE (in effect 1 January 1992) should be complied with by all registered companies, whilst ASLC (in effect 1 January 1998), as the name suggests, is to be complied with by all listed companies. The Ministry of Finance, accounting standards setting body in China, with the financial assistance of World Bank and the technical assistance of Deloitte Touche Tohmatsu International, has established, besides the ASBE and ASLC, an additional 13 sets of industry-specific accounting regulations.
accounting practices, whilst being able to satisfy the widely divergent information needs of various stakeholders, namely the government, investors and creditors (Tang 2000).

Besides the accounting reform, corporate governance structures were imposed on listed companies in 2001, to be fully implemented by 2003. Much literature has been written about the corporate governance structure of Chinese companies (see Tam 2000, Clarke 2003, Bai et al 2003) and the majority has criticised the use of prescriptive laws and regulations, and imposition of corporate governance structures. Tam (2000) stated that an important condition for the structure to work is the existence of an active and competitive market for corporate control. However, with the state as the majority shareholder, there is no market for corporate control. So it is problematic that imposition of corporate governance systems is not in conditions for which the structures are most advantageous. Therefore, it is interesting to examine whether the varying degrees to which these corporate governance structures have been adopted by companies influence their transparency.

China is an emerging market that is rapidly becoming an important element in the global economy. Being a country that has adopted the market-oriented style of financial reporting and corporate management, China offers a unique opportunity to examine whether the adoption of ‘best practices’ that are widely advocated in western societies has the same impact on financial disclosure and transparency in a non-western country.

2. Literature Review

2.1 What is transparency?

The concept of financial reporting transparency has been widely mentioned in the financial press. Especially since the collapse of Enron and WorldCom, the corporate community has placed more emphasis on corporate transparency. The concept of corporate transparency might seem to be a simple, straight-forward idea. Surprisingly, however, extant literature has not provided a clear-cut definition of corporate transparency. The Willard Report (1998) defined transparency as the “process by which information about existing conditions, decisions and actions is made accessible, visible and understandable” by all corporations and government agencies to the investing public. My study focuses on transparency at the corporate level. Studies have defined corporate transparency as a full and frank account of the company’s activities, that can be readily understood (Thompson & Yeung 2001) and is related to the quality of the information (Ang & Ciccone 2002).

In the Asian context, transparency has been identified as one of the many factors which caused the Asian Financial crisis. Investor protection policies and improvements in transparency have since been high on the list of initiatives of the relevant regulatory bodies in Asia. Transparency is increasingly becoming a topical area of research after much comment from various organisations. For example, the Securities and Exchange Commission’s Ex-chairman, Arthur Levitt, commented that transparency, timelines and reliability of financial statements are areas of investor protection which the Asian markets should improve upon. Lack of transparency restrains investors from making fully informed decisions and leads to an over-reaction to bad news (Levitt 1998). Emerging countries, such as the South-East Asian countries, do not traditionally have a culture where disclosure and transparency play an important role. This is mainly due to the lack of importance of the domestic capital markets, and inadequate regulations to mandate disclosure and greater transparency.

2 The IASs focuses on outside investors, whilst the PRC GAAP aims to satisfy the government and outside investors information needs equally.
2.1.1 Transparency measured as compliance with accounting standards and disclosure levels

Several organisations have attempted to measure transparency, despite the lack of a generally accepted definition of that term. For example, The Business Times in Singapore (2004) has a transparency index to compare all Singapore listed companies. Their transparency index measures both content (compliance with relevant standards and regulations) and context (usefulness, timeliness and distribution method). On a country-level, PriceWaterhouseCoopers’ Opacity Index (2001, p4) measures opacity via five dimensions, namely corruption levels, legal and judicial opacity, economic/policy opacity, accounting/corporate governance opacity and the impact of regulatory opacity and uncertainty/arbitrariness. Lastly, CLSA (2001) measured corporate transparency using 10 items including compliance with IASs, timeliness and means of information dissemination. Overall, these three measures imply that compliance with accounting standards are regarded as a benchmark for high transparency. Consistent with the purpose of GAAP Surveys (IFAD, 2004) countries should attempt to harmonise their accounting standards with the IASs.

Ashbaugh and Pincus (2000) showed that the IASs restricted measurement choices and required increased disclosure. Hansen (2001) believed it was vital for all countries to harmonise their accounting standards, to ensure greater transparency, build long-term global financial stability and create an international capital market. Accordingly, the IASs create a means to achieve these goals by providing a benchmark for comparable financial statements. Vishwanath & Kaufmann (2001) discussed transparency for the financial sector and depicted four specific characteristics of transparency: accessibility, relevance, reliability and quality. Bushman et al (2003) offered the most comprehensive definition of corporate transparency, defining it as “the widespread availability of firm specific information concerning publicly listed firms in the economy to those outside the firms.” Three categories of information mechanisms were stated: Corporate reporting, private information acquisition and information dissemination. From these studies, it can be seen that in measuring transparency, compliance with local standards or a global standard, such as the IASs and/or US GAAP plays a crucial role. It is therefore reasonable to measure transparency in a similar fashion in this study. Consistent with Morris et al (2004), Susilowati (2003) and Voronina (2003), transparency will be measured as the degree of compliance with the IASs and PRC GAAP.

2.2 Review of Disclosure Literature

The majority of disclosure studies focus on developed countries, usually the United States, United Kingdom and Australia. However, this focus has shifted towards emerging and developing countries since the Asian Financial crisis (e.g. Cooke and Wallace 1990, Salter 1998). This stream of research investigated factors leading to the Crisis, and found inadequate corporate governance (Johnson et al 2000) and lack of transparency (Pham et al 2003, Morris et al 2004) to be an influential factor.

There are three types of disclosures: mandatory, coercive voluntary and pure voluntary (Susilowati 2003). Mandatory disclosures are those required by regulations and are obeyed by the companies. Coercive voluntary disclosure regime is such that disclosure is mandated but is not regulated due to weak enforcement. Pure voluntary disclosure is when there is no regulation or no enforcement.

Most of the literature on disclosure does not examine mandatory disclosure regimes, because it is taken for granted, especially in developed countries, that companies will comply. However, this assumes rigorous enforcement of standards and accessibility to the information. For emerging countries, this may not be a wise assumption, and transparency will not improve, even with the adoption of more IASs (Ho and Wong 2001).
2.2.1 Why do firms disclose voluntarily?

Given that enforcement is not rigorous, it is expected that disclosure levels (mandatory and voluntary) would be low. However, studies have found that if benefits of disclosure outweighs the costs, firms will voluntarily disclose information (Meeks, Roberts and Gray 1995). Potential benefits and costs include lower cost of capital (e.g. Diamond and Verrecchia (1991), Botosan 1997), information search and processing cost, litigation risk (e.g. Skinner 1994, Francis et al 1994) and agency cost (e.g. Jensen and Meckling 1976, Watts 1977).

Voluntary disclosure is expected to reduce information asymmetry between stakeholders and the company. Value relevance of accounting information was supported in the seminal paper of Ball and Brown (1968), therefore disclosure should influence share prices either in the perception of company risk or in the level of potential future returns of the company. Companies that want to avoid being under or over valued\(^1\) by the market due to information asymmetry would disclose information voluntarily (Gray et al 1990, Meek et al 1995). The perception of risk would also bring additional benefits from other stakeholders, for example, creditors. Botosan (1997) found that a negative correlation was present between cost of equity and amount of voluntary disclosure.

For multinational or international companies listed on various stock exchanges, companies may possible, have to comply with several accounting standards, which would be expensive. However, there are spillover benefits, that is, compliance with mandatory disclosure in one country may be voluntary disclosure in another. For example, complying with the US listing rules would require quarterly reports, whilst China only requires semi-annual reports. Therefore, companies listed in the US and China would have more timely and accurate information. Another cost-effective solution is the use of IASs, which is an acceptable standard in most countries. This would reduce the need and costs of issuing several reports based on different standards.

Litigation risk arises if disclosed information is incorrect and investors suffer economic losses. Skinner (1994) argued that there is an asymmetry in the disclosure of bad and good news, and found some evidence that bad news is disclosed more often to prevent litigation. However, Francis et al (1994) did not find that the use of voluntary or early disclosure prevented litigation, although pre-emptive earnings reports or earnings forecasts were associated with litigation risk. Furthermore, they found that the magnitude of market reaction to bad news is associated with the type and tone of prior and current disclosures.

2.2.2 Disclosure motivation for Chinese firms

The extant literature on disclosure motivation and determinants has focused on the western societies and/or developed countries. However, China, the largest Asian emerging country, is institutionally different from these countries. There is currently no regulation to mandate the distribution of annual reports to investors. However, companies are required to submit electronic and hardcopies of interim and annual reports to the CSRC and their stock exchange. Previous studies on disclosure levels in China have found that mandatory disclosure compliance is high, and there is some voluntary disclosure. However, due to the changing requirements and standards, some of these disclosures previously classified as voluntary have been mandated, whilst others have been prohibited (Xiao, 1999). Haw et al (2001) found that Chinese companies disclosed very little information voluntarily. Further, due to the majority of listed companies originally being State-owned enterprises (SOEs) even after the initial IPO the state is still a

\(^1\)Because disclosure could be of a favourable or unfavourable nature, and the market reaction is not always predictable, the resulting direction of share price may not be the one management wants (Dye 2001)
major shareholder, so there is limited litigation risk, and corporate control consideration. However, regulatory enforcement is more of a concern. Lastly, agency theory and signalling theory have been found to be supported in Xiao et al’s (2004) study of internet-based voluntary disclosure by Chinese companies.

The regulations state that only companies issuing B-shares and having an overseas listing must disclose financial statements in accordance with the IASs and/or the local GAAP at the location of listing. However, they do not specifically state that A-shares only companies are prohibited from disclosing additional information that comply with the IASs. Although it is not necessary, firms may still voluntarily disclose additional information because they may have to prepare it in future years as a comparison when PRC standards, based on the IASs, are implemented. Furthermore, voluntary disclosure may be attributable to the forces of the globalising capital markets.

3. Hypothesis Development

3.1 Financial transparency and Firm specific factors

Size is a factor often found significant in disclosure and transparency studies (e.g. Morris et al 2004, Mitchel et al 1995, McKinnon and Dalimunthe 1993). Disclosure levels and quality of disclosure are typically higher for larger firms than for smaller firms. There are several reasons why this is so. Larger firms, being more complex than smaller firms, have more information to disclose, and more standards that are applicable. Secondly, larger firms tend to rely more heavily on outside capital and so, consistent with agency theory, benefits from disclosures would increase with firm size. Benefits could arise in the form of lower cost of capital, or a reduction of political costs, and economies of scale allow more information to be disclosed at a lower cost than smaller firms. The literature also uses firm size as a proxy for proprietary costs (Morris et al 2004), competitive advantage and information production costs (Hossain et al 1994).

Using market capitalisation of equity as the proxy for size, it is expected that:

H1: Firm size is positively associated with transparency

As mentioned above, one of the benefits of disclosure is lower cost of capital (Botosan 1997, Botosan and Plumlee 1999). The company’s risk increases with the level of debt. Therefore creditors would demand either a higher return and/or place restraints on the company to reduce any conflict of interest. These restrictions would encourage companies to disclose more information in the hope of reducing information asymmetry and the cost of capital. A positive relationship between leverage and disclosure levels (mandatory and voluntary) has been seen in studies involving developing countries (e.g. Hossain et al 1995, Morris et al 2004, Bradbury 1992), but other studies have found no relationship or a negative association (Eng and Mak 2003, Pham et al 2003). These could be due to measurement problems. As stated by Mitchel et al 1995, the leverage variable is sensitive to the measure of size and the proxy for leverage. To test whether this relationship holds for the current sample of Chinese companies:

H2: Firms with higher leverage are expected to have more transparency

Extant literature has mixed results in regards to the direction of the association between profitability and disclosure levels. Owusu-Ansah (1998) noted that the relationship depends on the level of profitability. Management would disclose information in an attempt to explain bad performance and reduce the level of scrutiny by shareholders. However, good news companies might provide more detailed disclosure to avoid undervaluation of shares (Ronen and Livnat 1981). Further, Chinese listed companies making losses for three consecutive years are automatically delisted resulting in incentives for bad news companies to defend their profitability. Nevertheless, given the underlying theory, the following hypothesis would be tested:
H3: Profitability is expected to be positively associated with transparency

3.2 Financial transparency and ownership

Agency theory suggests that when there is a separation of ownership and management, conflicts of interest will occur. To reduce the information asymmetry caused by this separation, outside shareholders\(^4\), would demand more information about the management of the company. Management in attempting to reduce this information asymmetry would voluntarily disclose information (Craswell and Taylor 1992, Morris et al 2004, Pham et al 2003). Outside shareholders are shareholders that do not have significant influence or control on the company and hence they are unable to gain information from management directly. Small shareholders are those with less than 5% shareholdings in the company. It can be posited that:

H4a: Firms with more “outside” shareholders will exhibit higher transparency  
H4b: Firms with more “small” shareholders will exhibit higher transparency

Most of the currently listed Chinese companies were once SOEs and even the companies are now privatised, the state still owns a majority of the shares. It is expected that firms with the major shareholder as the state would have fewer incentives to disclose information beyond what is required by the regulations because the state cannot be disciplined by market forces. Furthermore, regulations prohibit the trading of certain shares. For example, shares issued to employees are not tradable for the first three years of issuance, and even after this period executives are prohibited to trade shares before and after price sensitive announcements. These rules are to restrict insider trading but they also reduce capital market incentives for management to disclose information. Lastly, institutional shares (shares owned by the state or other founders) are not traded on the stock exchange. These investors, would also be able to gain information through internal means, rather than wait for untimely publications of financial reports. Therefore the following hypotheses would be tested:

H5a: The percentage of state owned shares is negatively associated with transparency  
H5b: The percentage of tradable shares is positively associated with transparency

3.3 Financial transparency and corporate governance

The Board of Directors should represent the interest of all shareholders in monitoring the performance of management. Independent directors play a representative role for all shareholders, in particular minority shareholders, in expressing their concerns, and as a means of communication with the company. Hence, the more independent directors are present, the more representative the board is of minority shareholders and the more effective it should be in reducing opportunistic behaviour of management. CSRC requires all companies to have at least 2 independent directors on the board by 30 June 2002, and a third by 30 June 2003. They also require independent directors to give a report in the annual reports, thereby increasing the incentives for independent directors to perform better in their monitoring of management decisions and activities (Chen and Jaggi 2000).

The role of an audit committee is to oversee the external and internal auditing system and its effectiveness and should monitor the internal control of the company (CSRC, 2001). These oversight functions should

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\(^4\) Inside shareholders are those with large holdings and have significant influence or control of the company. Outside shareholders are typically those with small shareholdings (less than 5% of all shares) and usually include minority shareholders.
ensure that external reporting meets the needs of shareholders, resulting in higher transparency and higher quality of financial reports for the benefit of outside shareholders.

When the chairman of the board of director also holds an executive position in the firm, there is concern as to whether monitoring role of the board is effective (Jensen 1993, Haniffa and Cooke 2002). It may be possible that the chairman would act in the interest of management more than the interest of shareholders. If there is a dual leadership structure then the board may be more effective in performing its monitoring role (Mak and Li 2001).

These lead to the following hypotheses:

\[ \text{H6a: Firms with a higher percentage of independent directors will exhibit higher transparency} \]
\[ \text{H6b: Firms with an audit committee are likely to be more transparent than firms without audit committees.} \]
\[ \text{H6c: Firms with a dual leadership structure will be more transparent than firms without dual leadership} \]

3.4 Financial transparency and auditor type

DeFond et al (2000) classified audit firms into three categories, those affiliated with government entities, those affiliated with universities\(^5\) and those affiliated with international CPA firms (usually Big N or globally affiliated firms\(^6\)). The accounting literature has commonly associated higher audit and financial reporting quality with Big N auditors, and lower quality with non-Big N auditors (Morris et al 2004). Auditors in China were alleged to be of low quality and independence of auditors was a major problem (Securities Times, May 29 1999). Larger audit firms have greater incentives to be more independent due to their lower reliance on income from specific clients (DeAngelo 1981) and they have more resources and expertise. Auditors found to be in breach of auditing regulations are subject to severe penalties including the revoking of the auditors’ licence and imprisonment. Further, harsh penalties from Chinese regulators are given to firms with modified audit reports (Chen, Su and Zhou 2003), and firms are expected to explain the nature and underlying reasons for the audit report, that could potentially be followed by delisting. Consequently, larger and more independent audit firms would be expected to demand additional information from the company to ensure that the financial reports comply with the relevant regulations and are ‘true and fair’, and reducing the cost associated with modified audit reports. Formally, the hypothesis is:

\[ \text{H7: Firms using a Big N auditor should exhibit higher transparency than firms using a local auditor} \]

3.5 Financial transparency and type of shares issued

There are two types of shares that individuals own traded on the Chinese stock exchanges: A-shares and B-shares. The former can only be owned and traded by Chinese citizens and denominated in Renminbi (local currency), whilst the latter is denominated in US dollars and is owned and traded by foreigners. All companies listed are required to issue financial reports in accordance with PRC GAAP. However, companies issuing B-shares are also required to issue reports that comply with IASs. Chinese companies

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\(^5\) These are accounting firms which are associated with major universities, and is unique to China

\(^6\) Globally affiliated firms identified in this study includes: Moore Stephen, Moore Rowland, Horwath, BDO and Grant Thornton.
also have the option of trading overseas. The most common countries for overseas listing are the United States and Hong Kong (Chinese companies traded on the Hong Kong Stock Exchange are called H-shares). The Ministry of Finance and CSRC require companies that list overseas to prepare financial statements in compliance with the IASs or the local standards where the company lists on the stock exchange. To reduce the level of information asymmetry, if the company discloses any information (mandatory or voluntary) to overseas investors, they are also expected, by CSRC, to disclose the same information at the same time to the Chinese stock exchange.

The IASs have more disclosure and transparency requirements than local standards, so compliance with the IASs in addition to the local accounting standards should result in higher transparency levels. Bradbury (1992) using a dummy variable (oversea listing and major shareholder or overseas funding source) did not find an association between disclosure levels, whilst Mitchel et al (1995) [dichotomous dummy variable for listing on overseas/foreign stock exchange, which is the measure in this study], found only partial support for that association. Gray et al (1995) using the same measure found a positive impact on voluntary disclosure. To test these mixed results in the context of China, the following is posited:

H8a: Firms which are listed overseas (H-shares or US ADRs) are expected to exhibit higher disclosure levels than those listed only on Chinese Stock Exchanges

H8b: Firms with B-shares stocks are expected to exhibit higher disclosure levels that firms with only A-shares

3.6 Financial transparency and corporate complexity

Firm complexity refers to diversification of the company either geographically or by industry. Diversification causes operational and informational complexity (Bushman et al 2003) and increases agency cost in relation to monitoring costs. This problem is more evident in emerging markets (Lins and Servaes 2001) than in developed markets (Denis et al 2002), due in the former to market imperfections and lack of investor protection policies to restrict expropriation of shareholders’ wealth. Firms that are more complex have more incentives to hide information, because detection of activities that would adversely affect shareholders’ wealth could be more easily hidden, and allow within-group transactions that need not be revealed (Lins and Servaes 2001). Chinese companies need not consolidate subsidiaries that they control, if they intend to sell the subsidiary in the near future or if the losses of the subsidiary are over a certain limit. Although that poses questions as to whether the consolidated reports are complete, it provides additional means by which companies could hide their actions legitimately. Segment reporting should assist in solving this problem. However the segment reporting accounting standard was not required until 1 January 2003, and was not applicable to the 2002 annual reports used in this study. Companies however were required to disclose the revenue, costs and profit/loss of the key produce lines and business segments. Firm complexity would be measured as the number of business segments and also by numbers of subsidiaries in this study. It is expected that:

H9: Firm complexity is negatively associated with transparency

4. Research Methodology

4.1 Sample Selection

This study focuses on companies that are listed on the major Chinese stock exchanges, namely Shanghai (SSE) and Shenzhen (SZSE), for the year ended 31 December 2002. The top 50 companies by registered market capitalisation were identified from the 2002 fact sheets from each of the two stock exchanges,
provided on their respective websites. This resulted in a list of the 100 biggest companies in China based on their registered market capitalisation. Banks, financial institutions and insurance companies were excluded from the sample due to their special regulatory requirements, and the top 50 from the remaining list was taken as the sample. This sample is representative of the top 4% of all listed companies in China, and was chosen for reasons of practicality. Due to initial concerns of the possible unavailability of Chinese companies’ annual reports, a random sample was not chosen. Subsequently, it was found that all listed Chinese companies have to submit their annual reports to the Chinese Securities and Regulations Commissions [CSRC] (plays a similar role to the SEC in the US), which were then posted on the CSRC website. All 50 Chinese annual reports were collected via this method. Regulations permit Chinese companies to provide annual reports in languages other than Chinese if they are listed overseas or issue B-shares. Company website details were obtained from the CSRC website and the Chinese annual reports, and English reports were located from the company websites, where possible. 7 English annual reports were found, but one had a broken link, resulting in only 6 reports. Mergent Online searches revealed one additional 2002 English annual report, totalling 7 English reports. To ensure that these companies are not biased towards any specific industry, the main business segment (as disclosed in the annual reports) that the companies engage in is classified under the Global Industry Code. Results are presented in Table 1.

4.3 Transparency Measure

The disclosure checklist used in Susilowati (2003) and Voronina (2002) will be used in this study (see Appendix 2). The checklist is comprised of 441 items based on the IASs in 2001. In contrast to Morris et al (2004) and Pham et al (2003), a US GAAP checklist requirement is not included, because harmonisation effects in China is based on the IASs and not on US GAAP. Furthermore, companies with shares held by foreigners (B shares or overseas listing) are required by the Chinese regulators to provide annual reports that comply with either the IASs or the local GAAP. There are only 10 companies in the sample that are listed on the US stock exchanges, and only one company which issues its English report based on US GAAP. The remaining companies have chosen to comply with the IASs. Admittedly, the choice of foundation for the disclosure checklist is open for criticism. The Disclosure checklist was extended by Susilowati (2003) and Voronina (2003) after criticism that the seven accounting issue list used in Morris et al (2003) and Pham et al (2003) was too restricted.

Each item will be coded 1 for disclosure and 0 for items that are ‘not disclosed. All items will be equally weighted and the transparency score calculated. The transparency score forms the basis of the dependent variable. Similar to previous studies, the transparency score is calculated in the following way:

\[
\text{TRANSPI} = \frac{\sum k \sum j a_{jk}}{\text{TOTM}}
\]

Where: \(a_{jk}\) is company i’s score on the \(j^{th}\) item in the \(k^{th}\) accounting standard; TOTM is the maximum possible score

Two methods of calculating the transparency score will be utilised. TRANSPI, TRANSPIMAN and TRANSPIVOL will include only the applicable items for each company into its score. That is, an attempt will be made to adjust each firm’s score to remove non-disclosed items which are “not applicable” to that firm. In contrast TRANSPI2, TRANSPI2MAN and TRANSPI2VOL will include all 441 items in TOTM. The two TRANSPI2MAN scores measure the compliance of the company with standards that are mandatory the PRC GAAP, and the two TRANSPI2VOL measure voluntary disclosure of firms for items mandated under the IASs but not under PRC GAAP.
4.4 Regression Model

The hypotheses will be tested using the regression model adapted from Pham et al (2003) and Susilowati (2003) as follows:

\[
\text{TRANSP}_{ij} = \alpha_0 + \beta_1 \ln \text{MktCap} + \beta_2 \text{LEV} + \beta_3 \text{NPAT} + \beta_4 \text{OSLIST} + \beta_5 \text{AUD} + \beta_6 \text{OUTSH} + \beta_7 \text{SMLS} + \beta_8 \text{MINSH} + \beta_9 \text{STATE} + \beta_{10} \text{TRAD} + \beta_{11} \text{AC} + \beta_{12} \text{INDEPDIR} + \beta_{13} \text{INTAUD} + \beta_{14} \text{EXECCHAIR} + \beta_{15} \text{BUSSEG} + \epsilon_t
\]

(see TABLE 2 for variables description)

5. Discussion and Conclusion

5.1 Foreseeable Limitation

The major limitation of this study is that a random sample is not used. Instead, the largest 50 companies by registered market capitalisation in 2002 were identified and used as the sample. This is only 4% of the all companies listed on the two stock exchanges, and is representative of the largest and probably most transparent firms in the country. It is therefore questionable as to the generalisability of the results to the larger population, and whether the sample size is sufficiently representative of the general population. Furthermore, the study focuses on only one country at a specific point in time.

This study, as with all studies using a disclosure checklist is subject to criticism. The current disclosure checklist contains 441 items in 9 sections, however, it can still be criticised as being incomplete and not representative of all possible disclosure requirements. The coding of the items may also be subject to coding errors and bias in interpretations in the annual reports. There is also a potential bias in using the English reports instead of the Chinese reports for the 7 companies, because the majority of English reports are produced in compliance with the IASs (one is in compliance with US GAAP), whilst the Chinese reports are all produced in compliance to PRC GAAP.

5.2 Potential Contributions

Despite the limitations of this study, it should provide useful insights. The financial press has advocated that harmonisation with the IASs would lead to the much needed transparency in emerging countries. China being the largest of the Asian countries in terms of population and size is increasingly becoming more active in the global financial markets, therefore it is imperative to study Chinese companies, after much argument that Chinese companies are for the most part, opaque. The rapid release of the various accounting standards in the past few years have quickly made redundant studies done on voluntary and mandatory disclosures in China. Although new standards and regulations are still being released, they are at a much slower speed and the majority of standards and regulations were already in place in 2002, allowing an updated study to be beneficial.
6. Reference


European Commission (2000)


7. Appendices

TABLE 1: Industry Classification

<table>
<thead>
<tr>
<th>Industry</th>
<th># of firms</th>
<th>Shanghai SSE</th>
<th>Shenzhen SZSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Freight &amp; Logistic</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Airline</td>
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<td>0</td>
<td>1</td>
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<td>Chemical</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Computers &amp; Peripherals</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Construction &amp; Engineering</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Diversified Telecommunication services</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Electric Equipment</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Electric utilities</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Electronic Equipment &amp; Instrument</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Food Products</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Machinery</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Marine</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Media</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Metals &amp; mining</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Real Estate</td>
<td>6</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Transportation Infrastructure</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Water Utilities</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Wireless Communication</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>35</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

It can be seen that out of the 50 companies, 70% of the firms are listed on the SSE whilst only 30% is listed on SZSE. A possible reason for the unequal weighting of the two stock exchange would be the size of the market of the two stock exchange. Total market capitalisation at 31 December 2002 for SSE was double that of the SZSE.

From the table, it is not apparent that there is a major clustering of industries in each of the Stock Exchange except maybe for the real estate industry. There does not seem to be a bias in the selection of companies in this respect, but additional testing will be done to ensure statistically there is no bias.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRANSP&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Transparency index &lt;i&gt;j&lt;/i&gt; of firm &lt;i&gt;i&lt;/i&gt;</td>
</tr>
<tr>
<td>LnMktCap</td>
<td>Natural Log of Market Capitalisation</td>
</tr>
<tr>
<td>LEV</td>
<td>Total Leverage measured as Total Debt/ Total Assets</td>
</tr>
<tr>
<td>NPAT</td>
<td>Net Profit after tax scaled by total assets</td>
</tr>
<tr>
<td>OSLIST</td>
<td>Dummy Variable: whether the firm is listed on any overseas stock exchange</td>
</tr>
<tr>
<td>AUD</td>
<td>Dummy Variables for use of Big 4 auditors and/or Globally affiliated firms</td>
</tr>
<tr>
<td>OUTSH</td>
<td>Proportion of shares held by inside parties</td>
</tr>
<tr>
<td>SMLSH</td>
<td>Proportion of shares held by shareholders each holding less than 5%</td>
</tr>
<tr>
<td>MINSH</td>
<td>Proportion of minority shareholders</td>
</tr>
<tr>
<td>STATE</td>
<td>The percentage of shares held by the state</td>
</tr>
<tr>
<td>TRAD</td>
<td>The percentage of shares that are allowed to be traded on the open market</td>
</tr>
<tr>
<td>AC</td>
<td>Dummy variable: existence of audit committee</td>
</tr>
<tr>
<td>INDEPDIR</td>
<td>Percentage of independent variables on the board of directors</td>
</tr>
<tr>
<td>INTAUD</td>
<td>Dummy variable: whether the company disclose the fact they have an internal auditor</td>
</tr>
<tr>
<td>EXECCHAIR</td>
<td>Dummy variable: whether the Chairman of the BoD is an executive</td>
</tr>
<tr>
<td>BUSSENG</td>
<td>The number of business segments, as a measure of corporate complexity</td>
</tr>
</tbody>
</table>
APPENDIX 2: Disclosure Checklist

<table>
<thead>
<tr>
<th>Description</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SECTION 2 GENERAL PRINCIPLES OF PRESENTATION</strong></td>
<td></td>
</tr>
<tr>
<td><strong>COMPONENTS OF FINANCIAL STATEMENTS</strong></td>
<td></td>
</tr>
<tr>
<td>2001 The financial statements should include the following components</td>
<td>IAS 1(r1997).7</td>
</tr>
<tr>
<td>a) balance sheet;</td>
<td></td>
</tr>
<tr>
<td>b) income statement;</td>
<td></td>
</tr>
<tr>
<td>c) a statement showing either;</td>
<td></td>
</tr>
<tr>
<td>i) all changes in equity; or changes in equity other than those arising from</td>
<td></td>
</tr>
<tr>
<td>capital transactions with owners and distributions to owners;</td>
<td></td>
</tr>
<tr>
<td>d) cash flow statement;</td>
<td></td>
</tr>
<tr>
<td>e) accounting policies and explanatory notes.</td>
<td></td>
</tr>
<tr>
<td><strong>SECTION 3 INCOME STATEMENT</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CONTENTS – GENERAL</strong></td>
<td></td>
</tr>
<tr>
<td>2003 The financial statements should disclose the fact that they comply</td>
<td>IAS 1(r1997).11</td>
</tr>
<tr>
<td>with International Financial Reporting Standards IFRS.</td>
<td></td>
</tr>
<tr>
<td>2019 Unless an IFRS permits or requires otherwise, comparative information</td>
<td></td>
</tr>
<tr>
<td>should be disclosed in respect of the previous period for all numerical</td>
<td></td>
</tr>
<tr>
<td>information in the financial statements.</td>
<td></td>
</tr>
<tr>
<td>3002 As a minimum, the face of the income statement should include line</td>
<td></td>
</tr>
<tr>
<td>items which present the following amounts:</td>
<td></td>
</tr>
<tr>
<td>a) revenue;</td>
<td></td>
</tr>
<tr>
<td>b) the results of operating activities;</td>
<td></td>
</tr>
<tr>
<td>c) finance costs;</td>
<td></td>
</tr>
<tr>
<td>d) share of profits and losses of associates and joint ventures accounted</td>
<td></td>
</tr>
<tr>
<td>for using the equity method;</td>
<td></td>
</tr>
<tr>
<td>e) tax expense/Income tax related to profit or loss from ordinary activities</td>
<td></td>
</tr>
<tr>
<td>f) profit or loss from ordinary activities;</td>
<td></td>
</tr>
<tr>
<td>g) extraordinary items;</td>
<td></td>
</tr>
<tr>
<td>h) minority interest; and</td>
<td></td>
</tr>
<tr>
<td>i) net profit or loss for the period.</td>
<td></td>
</tr>
<tr>
<td>3004 In respect of discontinuing operations, the amount of the pre-tax</td>
<td>IAS 35.39</td>
</tr>
<tr>
<td>gain or loss recognised on the disposal of assets or settlement of</td>
<td></td>
</tr>
<tr>
<td>liabilities attributable to a discontinuing operation should be disclosed</td>
<td></td>
</tr>
<tr>
<td>on the face of the income statement.</td>
<td></td>
</tr>
<tr>
<td>3005 The investor’s share of the profits or losses of associates accounted</td>
<td>IAS 28(2000).28</td>
</tr>
<tr>
<td>for using the equity method should be disclosed as a separate item in the</td>
<td></td>
</tr>
<tr>
<td>income statement.</td>
<td></td>
</tr>
<tr>
<td><strong>ANALYSIS OF EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>3006 The financial statements should present, either on the face of the</td>
<td>IAS1(r1997).77</td>
</tr>
<tr>
<td>income statement or in the notes to the income statement, an analysis of</td>
<td></td>
</tr>
<tr>
<td>expenses using a classification based on either the nature of the expenses</td>
<td></td>
</tr>
<tr>
<td>(staff costs, depreciation etc.) or</td>
<td></td>
</tr>
<tr>
<td>3007 When expenses are classified by function, additional information</td>
<td>IAS 1(r1997).83</td>
</tr>
<tr>
<td>should be disclosed on the nature of expenses, including depreciation and</td>
<td></td>
</tr>
<tr>
<td>amortisation expense, and staff costs.</td>
<td></td>
</tr>
<tr>
<td><strong>EARNINGS PER SHARE</strong></td>
<td></td>
</tr>
<tr>
<td>3008 Basic and diluted earnings/(loss) per share should be presented on the</td>
<td>IAS33.47,48</td>
</tr>
<tr>
<td>face of the income statement (with equal prominence for all periods</td>
<td></td>
</tr>
<tr>
<td>presented) for each class of ordinary shares that has a different right</td>
<td></td>
</tr>
<tr>
<td>to share in the net profit for the period.</td>
<td>IAS33.49</td>
</tr>
<tr>
<td>3009 The enterprise should disclose the following:</td>
<td></td>
</tr>
<tr>
<td>a) the amount s used as the numerators in calculating basic and diluted</td>
<td></td>
</tr>
<tr>
<td>earnings per share, and a reconciliation of those amounts to the net</td>
<td></td>
</tr>
<tr>
<td>profit or loss for the period; and</td>
<td></td>
</tr>
<tr>
<td>b) the weighted average number of ordinary shares used as the denominator</td>
<td></td>
</tr>
<tr>
<td>in calculating basic and diluted earnings per share, and a reconciliation</td>
<td></td>
</tr>
<tr>
<td>of those denominators to each other.</td>
<td></td>
</tr>
<tr>
<td><strong>SECTION 4 BALANCE SHEET</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CONTENTS – GENERAL</strong></td>
<td></td>
</tr>
<tr>
<td>4001 As a minimum, the face of the balance sheet should include line items</td>
<td>IAS 1(r1997).66</td>
</tr>
<tr>
<td>which present the following amounts:</td>
<td></td>
</tr>
<tr>
<td>a) property, plant and equipment;</td>
<td></td>
</tr>
</tbody>
</table>
b) intangible assets;

c) financial assets (excluding amounts under (d), (f) and (g));

d) investments accounted for using the equity method;

e) inventories;

f) trade and other receivables;

g) cash and cash equivalents;

h) trade and other payables;

i) tax liabilities/assets as required by IAS 12 (r2000) Income Taxes;

j) provisions;

k) non-current interest-bearing liabilities;

l) minority interest; and

m) issued capital and reserves.

4004 Investments in associates accounted for using the equity method should be classified as long-term assets and disclosed as a separate item in the balance sheet. IAS 28(r2000).28

4005 Minority interests should be presented in the consolidated balance sheet separately from liabilities and the parent shareholders’ equity. IAS 27(r2000).26

CURRENT/NON-CURRENT DISTINCTION

4007 Where current and non-current assets, and current and non-current liabilities, are not presented as separate classifications on the face of the balance sheet, assets and liabilities should be presented broadly in order of their liquidity. IAS 1(r1997).53, IAS 1(r1997).57

4008 An asset should be classified as a current asset when:

a) it is expected to be realised in, or is held for sale or consumption in, the normal course of the enterprise’s operating cycle; or

b) it is held primarily for trading purposes or for the short-term, and is expected to be realised within 12 months of the balance sheet date; or

c) it is cash or a cash equivalent asset which is not restricted in its use.

4009 All assets, other than those meeting one of the criteria outlined in item 4008 above, should be classified as non-current assets. IAS 1(r1997).57

4010 A liability should be classified as a current liability when:

a) it is expected to be settled in the normal course of the enterprise’s operating cycle; or

b) it is due to be settled within 12 months of the balance sheet date.

4011 All liabilities, other than those meeting one of the criteria outlined in item 4010 above, should be classified as non-current liabilities. IAS 1(r1997).60

4012 An enterprise should continue to classify its long-term interest-bearing liabilities as noncurrent, even when they are due to be settled within 12 months of the balance sheet date, if:

a) the original term was for a period of more than 12 months;

b) it is intended to refinance the obligation on a long-term basis; and

c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue.

4013 The amount of any liability that has been excluded from current liabilities in accordance with item 4012 above should be disclosed in the notes to the financial statements, together with information in support of this presentation. IAS 1(r1997).63

SECTION 5 STATEMENT OF CHANGES IN EQUITY

5001 An enterprise should present, as a separate component of the financial statements, a statement showing

a) the net profit or loss for the period;

b) each item of income and expense, gain or loss which, as required by other Standards, is recognised directly in equity, and the total of those items; and

c) the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatments of IAS 8.1(r1997).86(c)

5002 The following items should be presented, either within the statement referred to in item 5001, or in the notes to the financial statements:

a) capital transactions with owners and distributions to owners;

b) the balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and movements for the period; and

c) a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and end of the period, separately disclosing each movement. IAS 1(r1997).86(f)
The following amounts charged or credited directly to equity should be separately disclosed (as required by specific Standards):

(a) the aggregate current tax relating to items that are charged or credited to equity;  
IAS 12(r2000).81(a)

(b) the aggregate deferred tax relating to items that are charged or credited to equity  
IAS 12(r2000).81(a)

(c) the revaluation surplus arising on property, plant and equipment, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders;  
IAS 16(r1998).64(f)

(d) the amount of revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders  
IAS 38.113

(e) the amount recognised in equity in the period for gains/losses from remeasuring available-for-sale financial assets to fair value, and the amount that was removed from equity and reported in net profit or loss for the period;  
IAS 39(r2000).170(a)

(f) the net exchange difference classified as equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period;  
IAS21(r1993).42(b)

SECTION 6 CASH FLOW STATEMENT

A cash flow statement should be presented as an integral part of the financial statements for each period for which financial statements are presented.  
IAS 7(r1992).

CLASSIFICATION OF CASH FLOWS

The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.  
IAS 7(r1992).10

The enterprise should report cash flows from operating activities using either:  
7(r1992).18

a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of pa

Major classes of gross cash receipts and gross cash payments arising from investing and financing activities should be separately reported, except to the extent that they are specifically permitted by the Standard to be presented on a net basis.  
7(r1992).21, 22,24

EXTRAORDINARY ITEMS

The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.  
IAS 7(r1992).29

INTEREST AND DIVIDENDS

Cash flows from interest and dividends received and paid should each be disclosed separately  
IAS 7(r1992).31

Cash flows from interest and dividends received and paid should each be classified in a consistent manner from period to period as either operating, investing or financing activities.  
IAS 7(r1992).31

TAXES ON INCOME

Cash flows arising from taxes on income should be classified as cash flows from operating activities unless they can be specifically identified with financing or investing activities.  
IAS 7(r1992).35

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND OTHER BUSINESS UNITS

The aggregate cash flows arising from acquisitions and disposals of subsidiaries or other business units should be presented separately and classified as investing activities  
IAS 7(r1992).39

The following information should be disclosed, in aggregate, in respect of both acquisitions and disposals of subsidiaries or other business units during the period:  
IAS 7(r1992).40

a) the total purchase or disposal consideration;

b) the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;

c) the amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of; and

d) the amounts of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by major category.

NON-CASH TRANSACTIONS

Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from the cash flow statement.  
IAS 7(r1992).43

Investing and financing transactions that do not require the use of cash or cash equivalents should be disclosed elsewhere in the financial statements in a manner that provides all of the relevant information about those investing and financing acti  
IAS7(r1992).43

OTHER DISCLOSURES

The components of cash and cash equivalents should be disclosed.  
IAS7(r1992).45
A reconciliation should be presented of the amounts of the components of cash and cash equivalents in the cash flow statement with the equivalent items reported in the balance sheet

**SECTION 7 ACCOUNTING POLICIES**

**GENERAL REQUIREMENTS**

7001 The notes to the financial statements should present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events.

7002 The accounting policies section of the notes should describe:

a) the measurement bases used in preparing the financial statements; and

b) each specific accounting policy that is necessary for a proper understanding of the financial statements.

**POLICIES REQUIRED TO BE DISCLOSED BY SPECIFIC STANDARDS**

7003 The following accounting policies should be disclosed, as required by specific Standards:

<table>
<thead>
<tr>
<th>Policy</th>
<th>Required Standard(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Subsidiaries - in the parent's separate financial statements, the method used to account for subsidiaries</td>
<td>IAS 27 (r2000).32©</td>
</tr>
<tr>
<td>b) Associates - the methods used to account for investments in associates.</td>
<td>IAS 28(r2000).27(b)</td>
</tr>
<tr>
<td>c) Goodwill - the amortisation period adopted;</td>
<td>IAS 22(r1998).88(a)</td>
</tr>
<tr>
<td>i) the justification for rebuttal of the presumption that the useful life of goodwill will not exceed 20 years from initial recognition; and</td>
<td></td>
</tr>
<tr>
<td>ii) a descri</td>
<td>IAS 22(r1998).88(b)</td>
</tr>
<tr>
<td>d) Negative goodwill</td>
<td></td>
</tr>
<tr>
<td>- the period(s) over which negative goodwill is recognised as income; and</td>
<td>IAS 22(r1998).91(b), IAS 22(r1998).91©</td>
</tr>
<tr>
<td>- the line item(s) of the income statement in which negative goodwill is recognised as income.</td>
<td></td>
</tr>
<tr>
<td>e) Goodwill and fair value adjustments</td>
<td>IAS 21(r1993).45</td>
</tr>
<tr>
<td>- the method selected in accordance with IAS 21 (r1993) (see below) to translate goodwill and fair value adjustments arising on the acquisition of a foreign entity</td>
<td></td>
</tr>
<tr>
<td>f) Revenue</td>
<td>IAS 18(r1993).35(a)</td>
</tr>
<tr>
<td>- the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services.</td>
<td></td>
</tr>
<tr>
<td>- the methods used to determine the contract revenue recognised in the period;</td>
<td></td>
</tr>
<tr>
<td>- the methods used to determine the stage of completion of contracts in progress.</td>
<td></td>
</tr>
<tr>
<td>h) Borrowing costs</td>
<td>IAS 23(r1993).29(a)</td>
</tr>
<tr>
<td>i) Government grants</td>
<td></td>
</tr>
<tr>
<td>- the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements.</td>
<td>IAS 20.39(a)</td>
</tr>
<tr>
<td>j) Retirement benefit costs</td>
<td>IAS 19(r2002).120(a)</td>
</tr>
<tr>
<td>- for defined benefit plans, the enterprise's accounting policy for recognising actuarial gains and losses.</td>
<td></td>
</tr>
<tr>
<td>k) Equity compensation plans</td>
<td></td>
</tr>
<tr>
<td>l) Property, plant and equipment - for each class of asset</td>
<td></td>
</tr>
<tr>
<td>- the measurement basis used for determining the gross carrying amount;</td>
<td>IAS 16(r1998).60(a), IAS 16(r1998).60(b), IAS 16(r1998).60(c),</td>
</tr>
</tbody>
</table>
m) Investment property carried at cost less accumulated depreciation:
   - the depreciation methods used; and
   - the useful lives or the depreciation rates used.

n) Intangible assets - for each class of asset, distinguishing between internally-generated intangible assets and other intangible assets:
   - the useful lives or the amortisation rates used;
   - the amortisation methods used;
   - the line item(s) of the income statement in which the amortisation of intangible assets is included;
   - if an intangible asset is amortised over more than 20 years:
     i) the justification for rebuttal of the presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use; and
     ii) a description of the factor(s) that played a significant role in determining the useful life of the asset; and
   - for intangible assets acquired by way of a government grant and initially recognised at fair value, whether they are carried under the benchmark or the allowed alternative treatment for subsequent measurement

o) Inventories
   - the accounting policies adopted in measuring inventories, including the cost formula used

p) Financial instruments
   - the accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument, both recognised and unrecognised, including the criteria for recognition and the basis of measurement applied
   - the methods and significant assumptions (separately for each significant class of financial asset) applied in estimating fair values for the financial assets and liabilities that are carried at fair value;
   - whether gains and losses arising from changes in the fair value of available-for-sale financial assets carried at fair value are included in net income for the period or are recognised directly in equity until the financial asset is disposed of; and
   - for each category of financial assets defined in IAS 39(r2000), whether 'regular way' purchases and sales of financial assets are accounted for at trade date or settlement date.

CHANGES IN ACCOUNTING POLICIES

7004 Where the benchmark treatment is adopted for changes in accounting policies, and a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, the follow
   a) the reasons for the change;
   b) the amount of the adjustment for the current period and for each period presented;
   c) the amount of the adjustment relating to periods prior to those included in the comparative information; and
   d) the fact that comparative information has been restated or that it is impracticable to do so

7005 Where the allowed alternative treatment is adopted for changes in accounting policies, and a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, the follow
   a) the reasons for the change;
   b) the amount of the adjustment recognised in net profit or loss in the current period;
   c) additional proforma information prepared in accordance with the benchmark treatment;
   d) the amount of the adjustment included in each period for which proforma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements; and
   e) where it is impracticable to present proforma information, a statement of that fact

SECTION 8 EXPLANATORY NOTES

GENERAL

8001 The following details should be disclosed in the financial statements, if they are not disclosed elsewhere in information published with the financial statements
   a) the domicile and legal form of the enterprise, its country of incorporation and registered office address (or principal place of business, if different from the registered office);
   b) a description of the nature of the enterprise’s operations and its principal activities;
c) the name of the parent enterprise and the ultimate parent enterprise of the group; and

d) either the number of employees at the end of the period, or the average for the period.

Segment Reporting

8010 The following disclosures should be made for each reportable segment based on the enterprise's primary reporting format: IAS 14(r1997).50

a) segment revenue, separately distinguishing segment revenue from sales to external customers and segment revenue from transactions with other segments; IAS 14(r1997).51

b) segment result IAS 14(r1997).52

c) total carrying amount of segment assets; IAS 14(r1997).55

d) segment liabilities IAS 14(r1997).56

e) total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets); IAS 14(r1997).57

f) total amount of expense included in segment results for depreciation and amortisation of segment assets for the period; IAS 14(r1997).58

g) total amount of significant non-cash expenses, other than depreciation and amortisation, that are included in segment expense and, therefore, deducted in measuring segment result; IAS 14(r1997).61

h) the aggregate of the enterprise's share of the net profit or loss of associates, joint ventures, or other investments accounted for under the equity method, if substantially all of those operations are within that single segment; and IAS 14(r1997).64

i) where the group's share of results of associates and joint ventures is disclosed under (h) above, the aggregate investments in those associates and joint ventures. IAS 14(r1997).66

8011 The enterprise should disclose the following for each reportable segment based on its primary format:

a) the amount of impairment losses recognised in the income statement and directly in equity during the period; and

b) the amount of reversals of impairment losses recognised in the income statement and directly in equity during the period IAS 36.116

8012 The enterprise should present a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated or enterprise financial statements, including IAS 14(r1997).67

a) segment revenue reconciled to enterprise revenue from external customers (including disclosure of the amount of enterprise revenue from external customers not included in any segment's revenue);

b) segment result reconciled to a comparable measure of enterprise operating profit or loss as well as to enterprise net profit or loss;

c) segment assets reconciled to enterprise assets; and

d) segment liabilities reconciled to enterprise liabilities

8013 If the enterprise's primary format for reporting segment information is business segments, it should also report the following information: 14(r1997).69

a) segment revenue from external customers, by geographical area, based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of total enterprise revenue from sal

b) the total carrying amount of segment assets, by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and

c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets), by geographical location of assets, for each geographical segment whose se

8014 If the enterprise's primary format for reporting segment information is geographical segments (whether based on location of assets or location of customers), it should also report the following segment information for each business segment whose reve 14(r1997).70

a) segment revenue from external customers;  

b) the total carrying amount of segment assets; and

c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets).

8015 If the enterprise's primary format for reporting segment information is geographical segments that are based on location of assets, and if the location of its customers is different from the location of its assets, then it should als o report revenue IAS 14(r1997).71

8016 If the enterprise's primary format for reporting segment information is geographical segments that are based on location of customers, and if the enterprise's assets are located in different geographical areas from its customers, then it should also IAS 14(r1997).72

a) the total carrying amount of segment assets by geographical location of the assets; and

ba) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) by location of the assets

8018 For inter -segment transfers IAS 14(r1997).75
a) segment revenue from transactions with other segments should be measured and reported on the basis actually used to price those transfers; and

b) the basis of pricing inter-segment transfers and any change therein should be disclosed

8021 If not otherwise disclosed in the financial statements or elsewhere in the financial report, the enterprise should indicate, for both primary and secondary segments

a) the types of products and services included in each reported business segment; and

b) the composition of each reported geographical segment

REVENUE

8022 The following items should be disclosed:

a) the amount of each significant category of revenue recognised during the period including revenue arising from:

i) the sale of goods

ii) the rendering of services

iii) interest;

iv) royalties; and

v) dividends;

b) the amount of revenue arising from exchanges of goods or services in each significant category of revenue

8023 The enterprise should disclose the amount of revenue arising on construction contracts recognised as revenue in the period

DISCONTINUING OPERATIONS

8024 The following information should be disclosed relating to a discontinuing operation, beginning with the financial statements for the period in which the initial disclosure event occurs:

a) a description of the discontinuing operation;

b) the business or geographical segment(s) in which it is reported in accordance with IAS 14 (r1997) Segment Reporting;

c) the date and nature of the initial disclosure event;

d) if known or determinable, the date or period in which the discontinuance is expected to be completed;

e) the carrying amounts, as of the balance sheet date, of the total assets and the total liabilities to be disposed of;

f) the amounts of revenue, expenses and pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense relating thereto; and

g) the amounts of net cash flows attributable to the operating, investing and financing activities of the discontinuing operation during the current financial reporting period.

8026 If the enterprise has disposed of assets or settled liabilities attributable to a discontinuing operation or entered into binding agreements for the sale of such assets, or the settlement of such liabilities, the following information should be inclu

a) for any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation:

i) the amount of the pre-tax gain or loss; and

ii) the income tax expense relating to the gain or loss; and

b) for those net assets for which the enterprise has entered into one or more binding sale agreements:

i) the net selling price or range of prices (which is after deducting the expected disposal costs);

ii) the expected timing of receipt of those cash flows; and

iii) the carrying amount of those net assets.

8030 The specified disclosures should be presented separately for each discontinuing operation.

8032 Any income or expense relating to a discontinuing operation should be presented within ordinary activities and not as an extraordinary item.

8033 The use of the term 'discontinuing operation' should be restricted to restructurings, transactions and events that meet the definition of a discontinuing operation under IAS 38.43

INVESTMENT PROPERTY INCOME AND EXPENDITURE

8035 The enterprise should disclose amounts included in the income statement for

a) rental income from investment property

b) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and

c) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period
### OTHER ITEMS OF INCOME AND EXPENDITURE

**Research and Development Costs**

| 8036 | The financial statements should disclose the aggregate amount of research and development expenditure recognised as an expense during the period | IAS 38.115 |

**Exchange Differences**

| 8037 | The following should be disclosed | IAS 21(r1993).42(a), (c) |
|      | a) the amount of exchange differences included in the net profit or loss for the period; and | |
|      | b) the amount of exchange differences arising during the period that are included in the carrying amount of an asset in accordance with the allowed alternative treatment permitted under IAS 21(r1993).21. | |

**Costs of Inventories**

| 8038 | The financial statements should disclose either: | IAS 2(r1993).37 |
|      | a) the cost of inventories recognised as an expense during the period; or | |
|      | b) the operating costs, applicable to revenues, recognised as an expense during the period, classified by their nature | |

**Borrowing Costs**

| 8039 | The following should be disclosed | IAS 23(r1993).29(b),(c) |
|      | a) the amount of borrowing costs added to the cost of qualifying assets during the period; and | |
|      | b) the rate used to determine the amount of borrowing costs eligible for such treatment. | |

**Compensation Received**

**TAXATION**

| 8041 | The major components of tax expense/income should be separately disclosed | IAS 12(r2000).79 |
| 8042 | An explanation should be provided of the relationship between the tax expense/income and the accounting profit in either or both of the following forms: | IAS 12(r2000).81(c) |
|      | a) a numerical reconciliation between the tax expense/income and the product of accounting profit multiplied by the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed; and/or | |
|      | b) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed. | |
| 8043 | The following should be disclosed: | IAS 12(r2000).81(d) |
|      | a) an explanation of changes in the applicable tax rate compared to the previous accounting period; and | |
|      | b) in respect of discontinuing operations, the tax expense relating to: | IAS12(r2000).81(h) |
|      | i) the gain or loss on discontinuance; and | |
|      | ii) the profit or loss from the ordinary activities of the discontinuing operation for the period, together with the corresponding amounts for each prior period presented | |

**EXTRAORDINARY ITEMS**

| 8045 | The following should be disclosed separately for extraordinary items: | IAS 8(r1993).11 |
|      | a) the nature and amount of each item; and | |
|      | b) the tax expense/income relating to extraordinary items recognised during the period. | IAS12(r2000).81(b) |

**OTHER UNUSUAL ITEMS**

**DIVIDENDS**

| 8047 | The enterprise should disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements | IAS 1(r1997).85 |

**PROPERTY, PLANT AND EQUIPMENT**

| 8052 | The following information should be disclosed for each class of property, plant and equipment: | IAS 16(r1998).60(a) |
|      | a) when more than one measurement basis has been used, the gross carrying amount included for each measurement basis in each category | |
|      | b) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and | IAS16(r1998).60(d) |
|      | c) a reconciliation of the carrying amount at the beginning and end of the period showing: | IAS 16(r1998).60(e) |
|      | i) additions; | |
|      | ii) disposals; | |
| iii) acquisitions through business combinations; |
| iv) increases or decreases during the period resulting from revaluations and from impairment losses recognised or reversed directly in equity (if any); |
| v) impairment losses recognised in the income statement during the period (if any); |
| vi) impairment losses reversed in the income statement during the period (if any); |
| vii) depreciation; |
| viii) the net exchange differences arising on the translation of the financial statements of a foreign entity; and |
| ix) other movements. |

8053 The financial statements should also disclose the following information:

| a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities; and |
| b) the amount of expenditure on account of property, plant and equipment in the course of construction. |

8054 When items of property, plant and equipment are stated at revalued amounts, the following additional information should be disclosed:

| a) the basis used to revalue the assets; |
| b) the effective date of the revaluation; |
| c) whether an independent valuer was involved; |
| d) the nature of any indices used to determine replacement cost; and |
| e) the carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried under the benchmark treatment. |

INVESTMENT PROPERTY

Disclosures for all Investment Property

8057

| a) The enterprise should disclose the methods and significant assumptions applied in determining the fair value of investment property. |
| b) The disclosures under item 8057(a) should include a statement as to whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the enterprise should disclose) because of the nature of the investment property. |
| c) The enterprise should disclose the extent to which the fair value of investment property (as disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised qualification and who has recent experience in the valuation of similar properties. |
| d) If there has been no valuation by an independent valuer, as described in the previous paragraph, that fact should be disclosed. |

Fair Value Model

8059 In addition to the disclosures required by items 8056 to 8058 above, an enterprise that applies the fair value model in accounting for its investment property should also disclose a reconciliation of the carrying amount of investment property at the reporting date with the fair value of investment property:

| a) additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure; |
| b) additions resulting from acquisitions through business combinations; |
| c) disposals; |
| d) net gains or losses from fair value adjustments; |
| e) the net exchange differences arising on the translation of the financial statements of a foreign entity; |
| f) transfers to and from inventories and owner-occupied property; and |
| g) other movements. |

8060 In the exceptional circumstances when an enterprise measures investment property using the benchmark treatment in IAS 16 (r1998) Property, Plant and Equipment (because of the lack of a reliable fair value):

| a) the reconciliation required by item 8059 above should disclose amounts relating to that investment property separately from amounts relating to other investment property; and |
| b) the enterprise should disclose: |
| i) a description of the investment property accounted for in accordance with IAS 16 (r1998); |
ii) an explanation of why fair value cannot be reliably measured;

iii) if possible, the range of estimates within which fair value is highly likely to lie; and

iv) on disposal of investment property not carried at fair value: the fact that the enterprise has disposed of investment property not carried at fair value;

- the carrying amount of that investment property at the time of sale; and

- the amount of the gain or loss recognised

Cost Model

8061 In addition to the disclosures required by items 8056 to 8058 above, an enterprise that applies the cost model in accounting for its investment property should also disclose

a) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

b) a reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following

i) additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure;

ii) additions resulting from acquisitions through business combinations;

iii) disposals;

iv) depreciation;

v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36 Impairment of Assets;

vi) the net exchange differences arising on the translation of the financial statements of a foreign entity;

vii) transfers to and from inventories and owner-occupied property; and

viii) other movements.

8062 Enterprises using the cost model should disclose the fair value of investment property. In the exceptional circumstances when an enterprise cannot determine the fair value of the investment property reliably, the enterprise should disclose:

a) a description of the investment property

b) an explanation of why fair value cannot be determined reliably; and

c) if possible, the range of estimates within which fair value is highly likely to lie

IAS 40.69(e)

Transitional Provisions

8063 Under the fair value model, an enterprise should report the effect of adopting IAS 40 on its effective date (or earlier) as an adjustment to the opening balance of retained earnings for the period in which IAS 40 is first adopted. In addition IAS 40.70

a) if the enterprise has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (determined on a basis that satisfies the definition of fair value in IAS 40, paragraph 4 and the
guii) adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly; and

ii) restate comparative information for those periods; and

b) if the enterprise has not previously disclosed publicly the information described in item 8063(a) above, the enterprise should not restate comparative information and should disclose that fact

GOODWILL

8064 The financial statements should provide a reconciliation of the carrying amount of goodwill at the beginning and end of the period showing:

a) the gross amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning of the period;

b) any additional goodwill recognised during the period;

c) any adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities;

d) any goodwill derecognised on the disposal of all or part of the business to which it relates during the period

e) amortisation recognised during the period;

f) impairment losses recognised during the period in accordance with IAS 36 Impairment of Assets (if any);

g) impairment losses reversed during the period in accordance with IAS 36 Impairment of Assets (if any);

h) other changes in the carrying amount of goodwill during the period (if any); and

i) the gross amount and the accumulated amortisation (aggregated with accumulated impairment losses), at the end of the period.

NEGATIVE GOODWILL
### INTANGIBLE ASSETS

8068 The financial statements should disclose the following for each class of intangible assets, distinguishing between internally-generated intangible assets and other intangible assets:

- a) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period; and 38.107(c)
- b) a reconciliation of the carrying amount at the beginning and end of the period
- i) additions, indicating separately those from internal development and through business combinations; 38.107(e)
- ii) retirements and disposals;
- iii) increases or decreases during the period resulting from revaluations and from impairment losses recognised or reversed directly in equity (if any);
- iv) impairment losses recognised in the income statement during the period (if any);
- v) impairment losses reversed in the income statement during the period (if any);
- vi) amortisation recognised during the period;
- vii) net exchange differences arising on the translation of the financial statements of a foreign entity; and
- viii) other changes in the carrying amount during the period.

8069 The financial statements should also disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements of the enterprise as a whole 38.111(b)

8072 If intangible assets are carried at revalued amounts, the following details should also be disclosed by class of intangible asset: IAS 38.113(a)

- a) the effective date of the revaluation
- b) the carrying amount of revalued intangible assets; and
- c) the carrying amount that would have been included in the financial statements had the revalued intangible assets been carried under the benchmark treatment

### SUBSIDIARIES

8073 The consolidated financial statements should include a listing of significant subsidiaries, with disclosure of the name, country of incorporation or residence, proportion of ownership interest and, if different, the proportion of voting power held 27(r2000).32(a)

8074 Where a parent does not prepare consolidated financial statements because it is a wholly-owned or a virtually wholly-owned subsidiary, the following disclosures should be made:

- a) the reasons why consolidated financial statements have not been presented together with the bases on which subsidiaries are accounted for in the parent's separate financial statements; and
- b) the name and registered office of its parent that publishes consolidated financial statements

8075 The consolidated financial statements should disclose, where applicable 27(r2000).32(b)

- a) the reasons for not consolidating a subsidiary
- b) the nature of the relationship between the parent and a subsidiary in which the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;
- c) the name of any enterprise in which more than half of the voting power is owned, directly or indirectly through subsidiaries, but which, because of the absence of control, is not a subsidiary; and
- d) the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period, and on the corresponding amounts for the preceding period.

### BUSINESS COMBINATIONS

8078 For all business combinations, the following disclosures should be made in the financial statements for the period during which the combination takes place: IAS 22(r1998).86

- a) the names and descriptions of the combining enterprises
- b) the method of accounting for the combination
- c) the effective date of the combination for accounting purposes; and
- d) any operations resulting from the business combination which the enterprise has decided to dispose of.

**Acquisitions - General**

8079 For a business combination that is an acquisition, the following disclosures should be made in the financial statements for the period during which the acquisition takes place: IAS 22(r1998).87

- a) the percentage of voting shares acquired; and
- b) the cost of acquisition and a description of the purchase consideration paid or contingently payable

### Restructuring Provisions
Unitings of Interests

8087 For a business combination that is a uniting of interests, the following additional disclosures should be made in the financial statements for the period during which the uniting of interests takes place:

a) a description and the number of shares issued, together with the percentage of each enterprise's voting shares exchanged to effect the uniting of interests;

b) the amounts of assets and liabilities contributed by each enterprise; and

c) the sales revenue, other operating revenues, extraordinary items and net profit or loss of each enterprise prior to the date of the combination that are included in the net profit or loss shown by the combined enterprise's financial statements.

INVESTMENTS IN ASSOCIATES

8090 The following disclosures should be made in relation to investments in associates:

a) an appropriate listing and description of significant associates, including the proportion of ownership interest and, if different, the proportion of voting power held; and

b) the investor’s share of any extraordinary or prior period items, separately disclosed IAS 28(r2000).27(a)

8091 If the investor discontinues recognition of its share of losses of an investee (generally where the share of losses equals or exceeds the carrying amount of its investment), the investor should disclose in its financial statements the amount of its u SIC 20.10

INTERESTS IN JOINT VENTURES

8092 The venturer should disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities IAS 31(r2000).47,48

8093 Where the venturer reports its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method, it should disclose the aggregate amount of each of current assets, long-term assets, IAS 31(r2000).47,48

ACCOUNTING FOR LEASES BY LESSORS

8094 The following disclosures should be made in the financial statements for finance leases:

a) a reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date;

b) the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the periods not later than one year, later than one year and not later than five years, and later than five years;

c) unearned finance income;

d) the unguaranteed residual values accruing to the benefit of the lessor;

e) the accumulated allowance for uncollectible minimum lease payments receivable;

f) contingent rents recognised in income; and

g) a general description of the lessor’s significant leasing arrangements IAS 17(r1997).48(a)

8095 The following disclosures should be made in the financial statements for operating leases:

a) the future minimum lease payments under non-cancellable operating leases, in aggregate and for each of the periods not later than one year, later than one year and not later than five years, and later than five years IAS 17(r1997).48(b)

b) total contingent rents recognised in income; and IAS 17(r1997).48(c)

c) a general description of the lessor’s significant leasing arrangements IAS 17(r1997).48(c)

IMPAIRMENT OF ASSETS

8098 For each class of assets, the financial statements should disclose:

a) the amount of impairment losses recognised in the income statement during the period and the line item(s) of the income statement in which those impairment losses are included; IAS 36.113(a)

b) the amount of reversals of impairment losses recognised in the income statement during the period and the line item(s) of the income statement in which those impairment losses are reversed; 36.113(b)

c) the amount of impairment losses recognised directly in equity during the period; and 36.113(c)

d) the amount of reversals of impairment losses recognised directly in equity during the period 36.113(d)

8099 If an impairment loss for an individual asset or a cash-generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, the enterprise should disclose:

a) the events and circumstances that led to the recognition or reversal of the impairment loss

b) the amount of the impairment loss recognised or reversed;

c) for an individual asset:

i) the nature of the asset; and
ii) if the enterprise applies IAS 14 (r1997) Segment Reporting, the reportable segment to which the asset belongs, based on the enterprise's primary format;

d) for a cash-generating unit:

i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in IAS 14 (r1997) Segment Reporting or other);

ii) the amount of the impairment loss recognised or reversed by class of assets and, if the enterprise applies IAS 14 (r1997) Segment Reporting, by reportable segment based on the enterprise's primary format; and

iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), the enterprise should describe the current and former ways of aggregating assets

e) whether the recoverable amount of the asset (cash-generating unit) is its net selling price or its value in use;

f) if recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and

g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use

8100 If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, the enterprise should disclose a brief description of the following

a) the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under item 8099; and

b) the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under item 8099

INVENTORIES

8101 The following items should be disclosed in the financial statements IAS 2(r1993).34

a) the total carrying amount of inventories and the carrying amount in classifications appropriate to the enterprise

b) the carrying amount of inventories carried at net realisable value;

c) the amount of any reversal of any write-down that is recognised as income in the period;

d) the circumstances or events that led to the reversal of a write-down of inventories; and

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

8102 When the cost of inventories is determined using the LIFO formula in accordance with the allowed alternative treatment under IAS 2 (r1993), the financial statements should disclose the difference between the amount of inventories as shown in the balance sheet and

a) the lower of the amount arrived at in accordance with the FIFO or weighted average cost formulas and net realisable value; or

b) the lower of current cost at the balance sheet date and net realisable value

CONSTRUCTION CONTRACTS

8103 The enterprise should disclose each of the following for contracts in progress at the balance sheet date: IAS 11(r1993).40

a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;

b) the amount of advances received; and

c) the amount of retainments

8104 The enterprise should present IAS 11(r1993).42

a) the gross amount due from customers for contract work as an asset; and

b) the gross amount due to customers for contract work as a liability

SHAREHOLDERS’ EQUITY

8105 For each class of share capital, the following information should be disclosed, either on the face of the balance sheet or in the notes: IAS 1(r1997).74(a)

a) the number of shares authorised;

b) the number of shares issued and fully paid, and issued but not fully paid;

c) par value per share, or that the shares have no par value;

d) a reconciliation of the number of shares outstanding at the beginning and at the end of the year

e) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;

f) shares in the enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise; and

g) shares reserved for issuance under options and sales contracts, including the terms and amounts

8106 The financial statements should include a description of the nature and purpose of each reserve within owners’ equity, either on the face of the balance sheet or in the notes IAS 1(r1997).74(b)
### TAX ASSETS AND LIABILITIES

8112 The following principles should be applied in the presentation of tax assets and liabilities:

<table>
<thead>
<tr>
<th>Principle</th>
<th>Reference</th>
</tr>
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<tbody>
<tr>
<td>a) tax assets and tax liabilities should be presented separately from other assets and liabilities in the balance sheet;</td>
<td>IAS 12(r2000).69</td>
</tr>
<tr>
<td>b) current tax assets and liabilities should be distinguished from deferred tax assets and liabilities; and</td>
<td>IAS 12(r2000).69</td>
</tr>
<tr>
<td>c) when the enterprise distinguishes between current and non-current assets and liabilities in its financial statements, deferred tax assets (liabilities) should not be treated as current assets (liabilities).</td>
<td>IAS 12(r2000).70</td>
</tr>
</tbody>
</table>

### ACCOUNTING FOR LEASES BY LESSEES

8118 The following disclosures should be made in the financial statements for lease agreements:

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Reference</th>
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<tbody>
<tr>
<td>a) for each class of asset, the net carrying amount at the balance sheet date;</td>
<td>IAS 17(r1997).23</td>
</tr>
<tr>
<td>b) a reconciliation between the total of minimum lease payments at the balance sheet date, and their present value;</td>
<td></td>
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<tr>
<td>c) the total of minimum lease payments at the balance sheet date for each of the periods not later than one year, later than one year and not later than five years, and later than five years, and their present value</td>
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<tr>
<td>d) contingent rents recognised in income in the period;</td>
<td></td>
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<tr>
<td>e) the total of future minimum sublease payments expected to be received under noncancellable subleases at the balance sheet date;</td>
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<tr>
<td>f) a general description of the lessee’s significant leasing arrangements including, but not limited to, the basis on which contingent rents are determined; the existence and terms of renewal or purchase options and escalation clauses; and restrictions</td>
<td></td>
</tr>
</tbody>
</table>

8119 The following disclosures should be made in the financial statements for lease agreements:

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<td>a) the total of future minimum lease payments under non-cancellable operating leases for each of the periods not later than one year, later than one year and not later than five years, and later than five years;</td>
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<tr>
<td>b) the total of future minimum sublease payments expected to be received under noncancellable subleases at the balance sheet date;</td>
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<tr>
<td>c) lease and sublease payments recognised in income for the period, with separate amounts for minimum lease payments, contingent rents and sublease payments; and</td>
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<tr>
<td>d) a general description of the lessee’s significant leasing arrangements including, but not limited to, the basis on which contingent rents are determined; the existence and terms of renewal or purchase options and escalation clauses; and restrictions</td>
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### FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION

8120 The issuer of a financial instrument should classify the instrument (or its component parts), as either a liability or as equity, in accordance with the substance of the contractual arrangement on initial recognition, and by reference to the definition |

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8121 The issuer of a financial instrument that contains both a liability and an equity element, should classify the component parts separately in accordance with item 8120 above.

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8122 Interest, dividends, losses and gains relating to a financial instrument, or a component part, which is classified as a financial liability, should be reported in the income statement as expense or income.

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8123 Distributions to holders of financial instruments which are classified as equity instruments should be debited directly to equity.

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8124 A financial asset and a financial liability should be offset, and the net amount reported in the balance sheet if, but only if, both of the following conditions are met:

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8125 The enterprise should describe its financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used.

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8126 For each class of financial asset, financial liability and equity instrument, both recognised and unrecognised, the enterprise should disclose information about the extent and nature of the financial instruments, including significant terms and conditions.

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8127 For each class of financial asset and financial liability, both recognised and unrecognised, the enterprise should disclose information about its exposure to interest rate risk, including:

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8128 For each class of financial asset, both recognised and unrecognised, the enterprise should disclose information about its exposure to credit risk, including:

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8129 For each class of financial asset and financial liability, both recognised and unrecognised, the enterprise should disclose information about fair value, unless it is impracticable to do so

8130 When it is not practicable to disclose such fair value information, within given constraints of timeliness or cost, that fact should be disclosed, together with information about the principal characteristics of the underlying financial instrument that are required to be disclosed under IAS 32.

8131 Where an enterprise carries one or more financial assets at an amount in excess of their fair value, it should disclose both:

a) the carrying amount and the fair value of either the individual assets or appropriate groupings of those individual assets; and
b) the reasons for not reducing the carrying amount, including the nature of the evidence that provides the basis for management’s belief that the carrying amount will be recovered.

8132 The enterprise should disclose a description of its financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction.

8133 The financial statements should disclose the following (separately for designated fair value hedges, cash flow hedges, and hedges of a net investment in a foreign entity):

a) a description of the hedge;
b) a description of the financial instruments designated as hedging instruments for the hedge and their fair values at the balance sheet date;
c) the nature of the risks being hedged; and
d) for hedges of forecasted transactions, the periods in which the forecasted transactions are expected to occur, when they are expected to enter into the determination of net profit or loss, and a description of any forecasted transaction for which hedge accounting will not be applied.

8134 If a gain or loss on derivative and non-derivative financial assets and liabilities designated as hedging instruments in cash flow hedges has been recognised directly in equity, the following should be disclosed:

a) the amount that was so recognised in equity during the current period
b) the amount that was removed from equity and reported in net profit or loss for the period; and
c) the amount that was removed from equity and added to the initial measurement of the acquisition cost or other carrying amount of the asset or liability in a hedged forecasted transaction during the current period (see IAS 39(2000), paragraph 160).

8135 If a gain or loss on remeasuring available-for-sale financial assets to fair value (other than assets relating to hedges) has been recognised directly in equity, the financial statements should disclose:

a) the amount that was so recognised in equity during the current period; and
b) the amount that was removed from equity and reported in net profit or loss for the period.

8136 If the presumption that fair value can be reliably measured for all financial assets that are available for sale or held for trading has been overcome and the enterprise is, therefore, measuring any such financial assets at amortised cost, that fact should be disclosed.

8137 If financial assets whose fair value previously could not be measured reliably are sold, that fact should be disclosed as well as the carrying amount of such financial assets at the time of sale, and the amount of gain or loss recognised.

8138 The financial statements should disclose significant items of income, expense, and gains and losses resulting from financial assets and financial liabilities, whether included in net profit or loss or as a separate component of equity.

8139 If the enterprise has entered into a securitisation or repurchase agreement, it should disclose, separately for such transactions that occur in the current financial reporting period and for remaining retained interests from transactions occurring in previous periods:

a) the nature and extent of such transactions, including a description of any collateral, and quantitative information about the key assumptions used in calculating the fair values of new and retained interests; and
b) whether the financial assets have been derecognised.

8140 If the enterprise has reclassified a financial asset as on e required to be reported at amortised cost rather than at fair value, the reason for that reclassification should be disclosed.

8141 Disclosure should be made of the nature and amount of any impairment loss or reversal of an impairment loss recognised for a financial asset, separately for each significant class of financial asset.

8142 A borrower should disclose the carrying amount of financial assets pledged as collateral for liabilities and any significant terms and conditions relating to pledged assets.

8143 A lender should disclose:

a) the fair value of collateral (both financial and non-financial assets) that it has accepted and that it is permitted to sell or repledge in the absence of default;
b) the fair value of collateral that is sold or repledged; and
c) any significant terms and conditions associated with its use of collateral.

EMPLOYEE BENEFITS

Post-Employment Benefits

8144 For defined contribution plans, the enterprise should disclose the amount recognised as an expense in the period.
For defined benefit plans, the enterprise should disclose the total expense recognised in the income statement for each of the following, and the line item(s) of the income statement in which they are included:

- a) current service cost;
- b) interest cost;
- c) expected return on plan assets;
- d) expected return on any reimbursement right recognised as an asset under IAS 19(r2002), paragraph 104A;
- e) actuarial gains and losses;
- f) past service cost; and
- g) the effect of any curtailment or settlement.

The following information should be disclosed about defined benefit plans:

- a) a general description of the type of plan;
- b) a reconciliation of the assets and liabilities recognised in the balance sheet, showing at least:
  - i) the present value at the balance sheet date of defined benefit obligations that are wholly unfunded;
  - ii) the present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded;
  - iii) the fair value of any plan assets at the balance sheet date;
  - iv) the net actuarial gains or losses not recognised in the balance sheet;
  - v) the past service cost not yet recognised in the balance sheet;
  - vi) any amount not recognised as an asset, because of the limit restrictions imposed by IAS 19 (r2002), paragraph 58(b);
  - vii) the fair value at the balance sheet date of any reimbursement right recognised as an asset under IAS 19 (r2002), paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and
  - viii) the other amounts recognised in the balance sheet;
- c) the amounts included in the fair value of plan assets for:
  - i) each category of the reporting enterprise's own financial instruments; and
  - ii) any property occupied by, or other assets used by, the reporting enterprise;
- d) a reconciliation showing the movements during the period in the net liability (or asset) recognised in the balance sheet;
- e) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset under IAS 19(r2002), paragraph 104A and;
- f) the principal actuarial assumptions used as at the balance sheet date, including, where applicable:
  - i) the discount rates;
  - ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
  - iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset under IAS 19 (r2002), paragraph 104A;
  - iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
  - v) medical cost trend rates; and
  - vi) any other material actuarial assumptions used.

In respect of equity compensation benefits, the following should be disclosed:

- a) the nature and terms (including any vesting rules) of equity compensation plans;
- b) the amounts recognised in the financial statements for equity compensation plans;
- c) the number and terms (including, where applicable, dividend and voting rights, conversion rights, exercise dates, exercise prices and expiry dates) of the enterprise's own equity financial instruments which are held by equity compensation plans (and, in the case of a listed enterprise, the balance sheet value of those financial instruments);
- d) the number and terms (including, where applicable, dividend and voting rights, conversion rights, exercise dates, exercise prices and expiry dates) of equity financial instruments issued by the enterprise to equity compensation plans or to employees (o
f) the number of share options held by equity compensation plans, or held by employees under such plans, that lapsed during the period; and

g) the amount, and principal terms, of any loans or guarantees granted by the reporting enterprise to, or on behalf of, equity compensation plans.

8151 Unless it is impracticable to do so, the following additional items should be disclosed:

a) the fair value, at the beginning and end of the period, of the enterprise's own equity financial instruments (other than share options) held by equity compensation plans; and

b) the fair value, at the date of issue, of the enterprise's own equity financial instruments (other than share options) issued by the enterprise to equity compensation plans or to employees during the period.

8152 If it is not practicable to determine the fair value of the equity financial instruments specified for disclosure under item 8151 above, that fact should be disclosed.

8153 On implementation of IAS 19 (r1998), the enterprise should determine its transitional liability in accordance with IAS 19(r1998), paragraph 154. Where the enterprise elects to recognise any excess of the transitional liability over the liability that would have arisen in accordance with IAS 19(r1998), paragraph 155(b)

a) the amount of the excess that remains unrecognised; and

b) the amount recognised in the current period.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

8156 For each class of provision, the enterprise should disclose:

a) the carrying amount at the beginning and end of the period; IAS 37.84

b) additional provisions made in the period, including increases to existing provisions;

c) amounts used (i.e. incurred and charged against the provision) during the period;

d) unused amounts reversed during the period; and

e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

8157 The enterprise should disclose the following for each class of provision:

a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;

b) an indication of the uncertainties about the amount or timing of those outflows including, where necessary to provide adequate information, the major assumptions made concerning future events; and

c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

8158 Unless the possibility of any outflow in settlement is remote, the enterprise should disclose, for each class of contingent liability at the balance sheet date, a brief description of the nature of the contingent liability IAS 37.86

8159 Where practicable, the following information should also be disclosed in respect of contingent liabilities:

a) an estimate of the financial effect of the contingent liability, under the measurement rules specified in IAS 37, paragraphs 36 to 52;

b) an indication of the uncertainties relating to the amount or timing of any outflow; and

c) the possibility of any reimbursement

8163 In the extremely rare case where information is not disclosed because disclosure of some or all of the information required by items 8156 to 8161 could be expected to prejudice seriously the position of the enterprise in a dispute with other parties

8165 A venturer should disclose the aggregate amount of the following contingent liabilities (unless the probability of loss is remote), separately from the amount of other contingent liabilities:

a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities which have been incurred jointly with other venturers;

b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers in a joint venture.

COMMITMENTS

8166 The financial statements should disclose the amount of commitments for the acquisition of property, plant and equipment IAS 16(r1998).61(d)

8167 The financial statements should disclose material contractual obligations to purchase, construct or develop investment property, or for repairs, maintenance or enhancements. IAS 40.66(f)

8168 The financial statements should disclose the amount of commitments for the acquisition of intangible assets. IAS 38.111(c)

8169 A venturer should disclose the aggregate amount of the following commitments in respect of its interests in joint ventures, separately from the amount of other commitments:

a) any capital commitments that the venturer has incurred in relation to its interests in joint ventures and its share in each of the capital commitments that have been incurred jointly with other venturers; and
b) its share of the capital commitments of the joint ventures themselves.

**GOVERNMENT GRANTS**

8170 The following information should be disclosed in the financial statements:

| a) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the enterprise has directly benefited; and | IAS 20.39(b) |
| b) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised | IAS 20.39(c) |

**RELATED PARTY DISCLOSURES**

8171 Related party relationships where control exists should be disclosed in the financial statements, irrespective of whether there have been transactions between the related parties. IAS 24.20

8172 If there have been transactions between related parties, the enterprise should disclose the nature of the related party relationships, as well as the types of transactions and the elements of the transactions necessary for an understanding of the final outcome. IAS 24.22

8173 Items of a similar nature should only be aggregated when such aggregation is appropriate on the basis that separate disclosure is not necessary for an understanding of the effects of related party transactions on the financial statements. IAS 24.24

8174 Separate disclosure should be made of amounts payable to and receivable from:

| a) the parent enterprise; | |
| b) fellow subsidiaries and associates; and | |
| c) other related parties. | |

**EVENTS AFTER THE BALANCE SHEET DATE**

8175 The enterprise should disclose the date when the financial statements were authorised for issue. IAS 10(r1999).16

8176 If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact. IAS 10(r1999).16

8177 If the enterprise receives information after the balance sheet date about conditions that existed at the balance sheet, the enterprise should update disclosures that relate to those conditions, in the light of the new information. IAS 10(r1999).18

8178 Where non-adjusting events after the balance sheet date are of such importance that nondisclosure would affect the ability of the users of financial statements to make proper evaluations and decisions, the enterprise should disclose the following information:

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

**SECTION 10 DISCLOSURE OF INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES (IAS 15)**

10001 The following items should be disclosed using an accounting method reflecting the effects of changing prices:

| a) the amount of the adjustment to or the adjusted amount of depreciation of property, plant and equipment; | IAS 15.21(a) |
| b) the amount of the adjustment to or the adjusted amount of cost of sales; | IAS 15.21(b) |
| c) the adjustments relating to monetary items, the effect of borrowing, or equity interests when such adjustments have been taken into account in determining income under the accounting method adopted; | IAS 15.21(c) |
| d) the overall effect of the adjustments described in (a) and (b) and, where appropriate, (c), as well as any other items reflecting the effects of changing prices that are reported under the accounting method adopted; | IAS 15.21(d) |
| e) if a current cost method is adopted, the current cost of property, plant and equipment, and of inventories; and | IAS 15.22 |
| f) a description of the methods adopted to compute the information specified by (a) to (e) above, including the nature of any indices used | IAS 15.23 |

10002 If the information specified above has not been presented in the primary financial statements, it should be provided on a supplementary basis. IAS 15.24

**SECTION 11 DISCLOSURES FOR ENTERPRISES REPORTING IN THE CURRENCY OF A HYPERINFLATIONARY ECONOMY (IAS 29)**

11001 The financial statements of an enterprise that reports in the currency of a hyperinflationary economy (whether based on a historical cost approach or a current cost approach) should be stated in terms of the measuring unit current at the balance sheet date. IAS 29.8

11002 The corresponding figures for the previous period, and any information in respect of earlier periods, should be stated in terms of the measuring unit current at the balance sheet date. IAS 29.8

11003 The gain or loss on the net monetary position should be included in net income and separately disclosed. IAS 29.9

11004 The financial statements should disclose the following information:

| a) the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the balance sheet date; | |
| b) whether the financial statements are based on a historical cost or current cost approach; and | |
c) the identity and level of the price index at the balance sheet date and the movement in the index during the current and the previous reporting period.

11005 When the economy has ceased to be hyperinflationary, and the enterprise has discontinued the preparation and presentation of financial statements prepared in accordance with IAS 29, the enterprise should treat the amounts expressed in the measuring