INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

# Technical Advisory Group
# Issue Paper

AGENDA ITEM: TAGED09-05
10 January 2023 – Online

# Section 29 (Income tax), Section 31 (Hyperinflation) and Section 32 (Events after the balance sheet date)

| | |
|---|---|
| Summary | This paper provides TAG members with the proposed approach to updating Sections 29, 31 and 32, which are being updated to align with changes to other Sections and not fundamentally reviewed. |
| Purpose/Objective of the paper | To allow TAG members to consider the consequential impact of changes to other Sections and any other emerging issues. |
| Other supporting items | None |
| Prepared by | Karen Sanderson |
| Actions for this meeting | **Comment and advise** on:<br>(i) the proposed revisions relating to timing differences relating to government grants<br>(ii) use of the term taxable profit and loss<br>(iii) other alignment changes |

# Technical Advisory Group

## Section 29 (Income tax), Section 31 (Hyperinflation) and Section 32 (Events after the balance sheet date)

### 1. Background

1.1 In line with responses to the Consultation Paper it was agreed to prioritise a limited number of topics for inclusion in the first edition of INPAG. Following discussions with the TAG it was agreed that other topics in the *IFRS for* SMEs Accounting Standard would be updated to align with the terminology being used in the remainder of INPAG.

1.2 As INPAG is being developed there are other consequential amendments that may need to be made that go beyond changes to terminology previously discussed. A limited number of changes are therefore proposed to ensure that INPAG is cohesive. These consequential amendments do not constitute a full review of the text in these topic areas.

### *2.* Income tax

2.1 The updates to Section 29 *Income Tax* are largely to make them NPO specific with consequential changes to terminology. There are three main points for TAG consideration that relate to the term 'taxable profit and loss' and text relating to government grants.

2.2 Throughout this Section references are made to taxable profits and losses. Elsewhere in INPAG references to profit and losses have been amended to surplus and deficit. However, the term 'taxable profits and losses' is the term that is commonly used by tax offices that cover all organisations in the economy. As such it is a tax regulation term rather than an accounting term. As a consequence it is proposed to retain the term 'taxable profits and losses' in INPAG.

2.3 Paragraph 29.3 of the *IFRS for SMEs* Accounting Standard says:

*This section does not deal with the methods of accounting for* ***government grants*** *(see Section 24 Government Grants). However, this section does deal with the accounting for* ***temporary differences*** *that may arise from such grants.*

It is proposed in TAGED09-01 that the existing Section 24 is removed an that the accounting of government grants is dealt with as part of a comprehensive section on review. Government grants would no longer be a separate Section. As a consequence it is proposed to delete paragraph 29.3.

2.4 The purpose of this paragraph is to specifically address timing differences. Additional guidance on timing differences arising from revenue may be appropriate, as well as additional guidance on gifts in-kind and services in-kind. It is therefore proposed that additional text is developed (either core guidance or application guidance) as a consequential change as the drafting of the guidance on revenue is developed.

2.5 Paragraph G29.40 has been amended to allow for a tax expense to be recognised in the Statement of Changes in Net Assets, consistent with the text requiring that the tax expense appears alongside the related transaction. It says:

*An entity shall recognise tax expense in the same component as the transaction or other event that resulted in the tax expense (ie surplus or loss from continuing operations or* ***discontinued operations****, income and expenses recognised directly in net assets or equity).*

If a tax expense is unlikely to arise in relation to these transactions, this element of the change may not be required.

**Question 1:** Do TAG members have any comments on the term 'taxable profits and losses'*?*

**Question 2:** Do TAG members agree that reference to government grants should be removed and that additional text should be added as a consequential change arising from the development of Section 23?

**Question 3**: Do TAG members consider that there will be a tax expense related to transactions that are recognised directly in the Statement of Changes in Net Assets?

## 3. Hyperinflation

3.1 There are no significant issues arising from the review of the section on hyperinflation. Two paragraphs of note are:

- paragraph G31.9, which has been amended to reflect the structure of the balance sheet proposed for NPOs
- paragraphG31.11, which has been updated to reflect the names and scope of the financial statements as they relate to income and expenses.

**Question 3:** Do TAG members have any comments on the proposed changes?

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

## 4. Events after the end of the reporting period

4.1 As with Section 31, there are no significant issues arising from the review of the section on events after the balance sheet date. Paragraphs to note are:

- paragraph G32.5 (b) (i) has been amended to include 'grant provider' into the sources of bankruptcy and 'trade' has been deleted against 'trade receivable' consistent with Section 4.
- paragraph G32.5 (d) has been amended to remove reference to profit sharing consistent with the amendments made to Section 28.
- paragraph G32.8 has been amended to refer more generally to distribution to holders of equity claims rather than dividends.
- paragraph G32.9 has been amended to only refer to 'others' who might have the power to amend the financial statements after issue.

**Question 4:** Do TAG members have any comments on the proposed changes?

## 5. Next steps

5.1 The authoritative guidance will be amended to reflect TAG member feedback. Unless otherwise requested, and only further consequential amendments will be brought to the February 2023. No Implementation Guidance or illustrative examples will be provided. A Basis for Conclusions will only be developed where consequential amendments are made and not for other changes to terminology.

January 2023

# *Notice*

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

**Annex A: Draft INPAG Authoritative Guidance**

# Section 29 (Income tax), Section 31 (Hyperinflation) and Section 32 (Events after the end of the reporting period)

## Section 29 - *Income Tax* (Editorial)

### Scope of this section

G29.1 For the purpose of this Guidance, **income tax** includes all domestic and foreign taxes that are based on **taxable profit**. Income tax also includes taxes, such as withholding taxes, that are payable by a **controlled entity**, **associate** or **joint arrangement** on distributions to the **reporting NPO**.

G29.2 This Section covers accounting for income tax. It requires an NPO to recognise the current and future tax consequences of transactions and other events that have been recognised in the **financial statements**. These recognised tax amounts comprise **current tax** and **deferred tax**. Current tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is income tax payable or recoverable in future periods, generally as a result of the NPO recovering or settling its **assets** and **liabilities** for their current **carrying amount**, and the tax effect of the carryforward of currently unused tax losses and tax credits.

~~G29.3 This Section does not deal with the methods of accounting for **government grants** (see Section 24 *Government Grants*). However, this section does deal with the accounting for **temporary differences** that may arise from such grants.~~

### Recognition and measurement of current tax

G29.3 An NPO shall recognise a current tax liability for tax payable on taxable surplus for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the NPO shall recognise the excess as a current tax asset.

G29.4 An NPO shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

G29.5 An NPO shall measure a current tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or **substantively enacted** by the **reporting date**. An NPO shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so. Paragraphs G29.33–G29.34 provide additional measurement guidance.

## Recognition of deferred tax

### General recognition principle

G29.6 It is inherent in the **recognition** of an asset or a liability that the reporting NPO expects to recover or settle the carrying amount of that asset or liability. If it is **probable** that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Section requires an NPO to recognise a **deferred tax liability** (**deferred tax asset**) with certain limited exceptions. If the NPO expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.

G29.7 An NPO shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the NPO's assets and liabilities in the **Statement of Financial Position** and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.

### Tax bases and temporary differences

G29.8 The **tax base** of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an NPO when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

G29.9 The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of **revenue** that is received in advance, the tax base of the resulting liability is its carrying amount less any amount of the revenue that will not be taxable in future periods.

G29.10 Some items have a tax base but are not recognised as assets and liabilities in the Statement of Financial Position. For example, **research** and **development** costs are recognised as an **expense** when determining **accounting surplus** in the period in which they are incurred but may not be permitted as a deduction when determining taxable profit (tax loss) until a later period. The difference between the tax base of the research and development costs, being the amount that the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a **deductible temporary difference** that results in a deferred tax asset.

G29.11 Temporary differences are differences between the carrying amount of an asset or liability in the Statement of Financial Position and its tax base. In **consolidated financial**

**statements**, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the **group**.

G29.12 Examples of situations in which temporary differences arise include:

(a) the identifiable assets acquired and liabilities assumed in a **business combination** are recognised at their **fair values** in accordance with Section 19 *Business Combinations and Goodwill*, but no equivalent adjustment is made for tax purposes (for example, the tax base of an asset may remain at cost to the previous owner). The resulting deferred tax asset or liability affects the amount of **goodwill** that an NPO recognises.

(b) assets are remeasured but no equivalent adjustment is made for tax purposes. For example, this Guidance permits or requires certain assets to be remeasured at fair value or to be revalued (for example, Section 16 *Investment Property* and Section 17 *Property, Plant and Equipment*).

(c) goodwill arises in a business combination, for example, the tax base of goodwill will be nil if taxation authorities do not allow the **amortisation** or the **impairment** of goodwill as a deductible expense when taxable profit is determined and do not permit the cost of goodwill to be treated as a deductible expense on disposal of the controlled entity.

(d) the tax base of an asset or a liability on initial recognition differs from its initial carrying amount.

(e) the carrying amount of investments in controlled entities, branches and associates or interests in joint arrangements becomes different from the tax base of the investment or interest.

Not all of these temporary differences will give rise to deferred tax assets and liabilities (see paragraphs G29.13 and G29.15).

**Taxable temporary differences**

G29.13 A deferred tax liability shall be recognised for all **taxable temporary differences**, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

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

(i) is not a business combination; and

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

However, for taxable temporary differences associated with investments in controlled entities, branches and associates, and interests in joint arrangements, a deferred tax liability shall be recognised in accordance with paragraph G29.26.

G29.14 Some temporary differences arise when **income** or expense is included in accounting surplus in one period but is included in taxable profit in a different period. Such temporary differences are often described as **timing differences**. The following are examples of temporary differences of this kind that are taxable temporary differences and that therefore result in deferred tax liabilities:

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

(b) **depreciation** used when determining taxable profit (tax loss) may differ from that used when determining accounting surplus. The temporary difference is the difference between the carrying amount of the asset and its tax base, which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities when determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated. If the tax depreciation is less rapid than the accounting depreciation, a deductible temporary difference arises resulting in a deferred tax asset (see paragraph G29.15).

**Deductible temporary differences**

G29.15 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that:

(a) is not a business combination; and

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

However, for deductible temporary differences associated with investments in controlled entities, branches and associates and for interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph G29.27.

G29.16 An NPO considers:

(a) the extent that it is probable that taxable profit will be available; and

(b) whether tax law restricts the sources of taxable profits against which the deductible temporary difference can be utilised.

G29.17 The following are examples of deductible temporary differences that result in deferred tax assets:

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

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

G29.18 The reversal of deductible temporary differences results in deductions when taxable profits of future periods are determined. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse:

(a) in the same period as the expected reversal of the deductible temporary difference; or

(b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

G29.19 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

(a) it is probable that the NPO will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). When evaluating whether it will have sufficient taxable profit in future periods, an NPO:

(i) compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the NPO to deduct the amounts resulting from the reversal of those deductible temporary differences.

(ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from those deductible temporary differences will itself require future taxable profit in order to be utilised.

(b) tax planning opportunities are available to the NPO that will create taxable profit in appropriate periods.

G29.20 The estimate of probable future taxable profit may include the recovery of some of an NPO's assets for more than their carrying amount if there is sufficient evidence that it is probable that the NPO will achieve this.

G29.21 When an NPO has a history of recent losses, the NPO considers the guidance in paragraphs G29.22–G29.23.

**Unused tax losses and unused tax credits**

G29.22 A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. When assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, an NPO considers the following criteria:

(a) whether the NPO has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;

(b) whether it is probable that the NPO will have taxable profits before the unused tax losses or unused tax credits expire;

(c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and

(d) whether tax planning opportunities are available to the NPO that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

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

G29.23 The existence of unused tax losses is strong evidence that future taxable profit may not be available. Consequently, when an NPO has a history of recent losses, the NPO recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the NPO has sufficient taxable temporary differences or to the extent that there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the NPO.

**Reassessment of unrecognised deferred tax assets**

G29.24 At the end of each **reporting period**, an NPO reassesses any unrecognised deferred tax assets. The NPO recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**Investments in subsidiaries, branches and associates and interests in joint arrangements**

G29.25 Temporary differences arise when the carrying amount of investments in controlled entities, branches and associates and interests in joint arrangements (for example, in the **controlling NPO**'s consolidated financial statements the carrying amount of a controlled entity is the net consolidated assets of that controlled entity, including the carrying amount of any related goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

(a) the existence of undistributed surpluses of controlled entities, branches, associates and joint arrangements;

(b) changes in foreign exchange rates when a controlling NPO and its controlled entity are based in different countries; and

(c) a reduction in the carrying amount of an investment in an associate to its **recoverable amount**.

Investments may be accounted for differently in the controlling NPO's **separate financial statements** compared to the consolidated financial statements, in which case the temporary difference associated with that investment may also differ. For example, in the controlling NPO's separate financial statement the carrying amount of a controlled entity will depend on the accounting policy chosen in paragraph G9.45.

G29.26 An NPO shall recognise a deferred tax liability for all taxable temporary differences associated with investments in controlled entities, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

(a) the controlling NPO, investor or party to the joint arrangement is able to control the timing of the reversal of the temporary difference; and

(b) it is probable that the temporary difference will not reverse in the foreseeable future.

G29.27 An NPO shall recognise a deferred tax asset for all deductible temporary differences arising from investments in controlled entities, branches and associates and interests in joint arrangements, only to the extent that it is probable that:

(a) the temporary difference will reverse in the foreseeable future; and

(b) taxable profit will be available against which the temporary difference can be utilised.

**Measurement of deferred tax**

G29.28 An NPOshall measure a deferred tax liability (asset) using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. An NPO shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so.

G29.29 When different tax rates apply to different levels of taxable profit, an NPO shall measure deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax liability to be settled (deferred tax asset to be realised).

G29.30 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. Consequently, an NPO measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred **tax expense** is measured using the capital gain tax rate and the tax base that is consistent with recovering the carrying amount through sale.

G29.31 If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Section 17, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale. If a deferred tax liability or asset arises from **investment property** that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or the deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, instead of through sale. If the presumption is rebutted, the requirements of paragraph G29.30 shall be followed.

G29.32 The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An NPO shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognised deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

**Measurement of both current and deferred tax**

G29.33 An NPO shall not discount current or deferred tax assets and liabilities.

G29.34 In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, an NPO shall measure current and deferred tax at the tax rate applicable to undistributed profits until the NPO recognises a liability to make a capital distribution. When the NPO recognises a liability to make a capital contribution, it shall recognise the resulting current or deferred tax liability (asset) and the related tax expense (income).

**Withholding tax on dividends**

G29.35 When an NPO makes a capital distribution, it may be required to pay a portion of the distribution to taxation authorities on behalf of holders of equity claims. Such an amount paid or payable to taxation authorities is charged to **equity** as a part of the capital distribution.

**Uncertainty over income tax treatments**

G29.36 It may be unclear how tax law applies to a particular transaction or circumstance. An uncertain tax treatment is a tax treatment whose acceptability by the relevant taxation authority under tax law is uncertain.

G29.37 An NPO shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.

G29.38 An NPO shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an NPO concludes either:

(a) it is probable that the taxation authority will accept an uncertain tax treatment, the NPO shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings; or

(b) it is not probable that the taxation authority will accept an uncertain tax treatment, the NPO shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which better predicts the resolution of the uncertainty:

(i) the most likely amount—the single most likely amount in a range of possible outcomes; or

(ii) the expected value—the sum of the probability-weighted amounts in a range of possible outcomes.

G29.39 An NPO shall reflect the effect of a change in relevant facts and circumstances, or of new information, on its judgements or estimates about uncertain tax treatments as a change in **accounting estimate** by applying Section 10 *Accounting Policies, Estimates and Errors*.

## Presentation

### Allocation in comprehensive income and equity

G29.40 An entity shall recognise tax expense in the same component as the transaction or other event that resulted in the tax expense (ie surplus or loss from continuing operations or **discontinued operations**, income and expenses recognised directly in net assets or equity).

### Current/non-current distinction

G29.41 When an NPO presents current and non-current assets, and current and non-current liabilities, as separate **classifications**_in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

### Offsetting

G29.42 An NPO shall offset current tax assets and current tax liabilities, if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

G29.43 An NPO shall offset deferred tax assets and deferred tax liabilities if, and only if:

(a) it has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the NPO can demonstrate that, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered, it plans either to settle current tax liabilities and assets on a net basis or to realise the current tax assets and settle the current tax liabilities simultaneously.

If (b) involves undue cost or effort, then an NPO shall not offset deferred tax assets and deferred tax liabilities.

**Disclosures**

G29.44 An NPO shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

G29.45 An NPO shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

(a) current tax expense (income);

(b) any adjustments recognised in the period for current tax of prior periods;

(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;

(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense;

(f) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders;

(g) deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph G29.32; and

(h) the amount of tax expense (income) relating to those changes in **accounting policies** and **errors** that are included in **surplus or deficit** in accordance with Section 10, because they cannot be accounted for retrospectively.

G29.46 An NPO shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognised directly in net assets.

(b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity.

(c) an explanation of any significant differences between the tax expense (income) and accounting surplus multiplied by the applicable tax rate. For example such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).

(d) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.

(e) for each type of temporary difference and for each type of unused tax losses and tax credits:

(i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period; and

(ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.

(f) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.

(g) in the circumstances described in paragraph G29.34, an explanation of the nature of the potential income tax consequences that would result from making a distribution to the providers of contributed capital.

G29.47 If an NPO does not offset tax assets and liabilities in accordance with paragraph G29.43 because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, the NPO shall disclose the amounts that have not been offset and the reasons why applying the requirement would involve undue cost or effort.

## Section 31 – *Hyperinflation* (Editorial)

### Scope of this section

G31.1 This Section applies to an NPO whose **functional currency** is the currency of a hyperinflationary economy. It requires such an NPO to prepare **financial statements** that have been adjusted for the effects of hyperinflation.

### Hyperinflationary economy

G31.2 This Section does not establish an absolute rate at which an economy is deemed hyperinflationary. An NPO shall make that judgement by considering all available information including, but not limited to, the following possible indicators of hyperinflation:

(a) the general population prefers to keep its wealth in non-monetary **assets** or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.

(b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.

(c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.

(d) interest rates, wages and prices are linked to a price index.

(e) the cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.

### Measuring unit in the financial statements

G31.3 All amounts in the financial statements of an NPO whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the **reporting period**. The comparative information for the previous period required by paragraph G3.14, and any information presented in respect of earlier periods, shall also be stated in terms of the measuring unit current at the **reporting date**.

G31.4 The restatement of financial statements in accordance with this Section requires the use of a general price index that reflects changes in general purchasing power. In most economies there is a recognised general price index, normally produced by the government, that entities will follow.

**Procedures for restating historical cost financial statements**

**Statement of Financial Position**

G31.5 **Statement of Financial Position** amounts not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.

G31.6 **Monetary items** are not restated because they are expressed in terms of the measuring unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

G31.7 Assets and **liabilities** linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement and presented at this adjusted amount in the restated Statement of Financial Position.

G31.8 All other assets and liabilities are non-monetary:

(a) some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and **fair value**, so they are not restated. All other non-monetary assets and liabilities are restated.

(b) most non-monetary items are carried at cost or cost less **depreciation**; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period.

(c) some non-monetary items are carried at amounts current at dates other than that of acquisition or the reporting date, for example, **property, plant and equipment** that has been revalued at some earlier date. In these cases, the **carrying amounts** are restated from the date of the revaluation.

(d) the restated amount of a non-monetary item is reduced, in accordance with Section 27 *Impairment of Assets*, when it exceeds its **recoverable amount**.

G31.9 At the beginning of the first period of application of this section, the components of **net assets**, except funds with restrictions and funds without restrictions (including any revaluation surplus), are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated funds with restrictions and funds without restrictions are derived from all the other amounts in the restated Statement of Financial Position.

G31.10 At the end of the first period and in subsequent periods, all components of ~~**owners'**~~ equity claims are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The changes for the period in ~~owners'~~ equity claims are disclosed in accordance with Section 6 *Statement of Changes in Net Assets*.

**Statement of comprehensive income and income statement**

G31.11 All items in the ~~**statement of comprehensive income** (and in the **income statement**, if presented)~~ Statement of Income and Expenses and Statement of Changes in Net Assets shall be expressed in terms of the measuring unit current at the end of the reporting period. Consequently, all amounts need to be restated by applying the change in the general price index from the dates when the items of **income** and **expenses** were initially recognised in the financial statements. If general inflation is approximately even throughout the period, and the items of income and expense arose approximately evenly throughout the period, an average rate of inflation may be appropriate.

**Statement of cash flows**

G31.12 An NPO shall express all items in the **Statement of Cash Flows** in terms of the measuring unit current at the end of the reporting period.

**Gain or loss on net monetary position**

G31.13 In a period of inflation, an NPO holding an excess of monetary assets over monetary liabilities loses purchasing power, and an NPO with an excess of monetary liabilities over monetary assets gains purchasing power, to the extent the assets and liabilities are not linked to a price level. An NPO shall include in **surplus or deficit** the gain or loss on the net monetary position. An NPO shall offset the adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph G31.7 against the gain or loss on net monetary position.

**Economies ceasing to be hyperinflationary**

G31.14 When an economy ceases to be hyperinflationary and an NPO discontinues the preparation and presentation of financial statements prepared in accordance with this Section, it shall treat the amounts expressed in the **presentation currency** at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

## Disclosures

G31.15 An NPO to which this Section applies shall disclose the following:

(a) the fact that financial statements and other prior period data have been restated for changes in the general purchasing power of the functional currency;

(b) the identity and level of the price index at the reporting date and changes during the current reporting period and the previous reporting period; and

(c) amount of gain or loss on monetary items.

## Section 32 - *Events after the end of the reporting period* (Editorial)

### Scope of this section

G32.1 This section defines events after the end of the **reporting period** and sets out principles for recognising, measuring and disclosing those events.

### Events after the end of the reporting period defined

G32.2 Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the **financial statements** are authorised for issue. There are two types of events:

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

(b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).

G32.3 Events after the end of the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of **surplus or deficit** or other selected financial information.

### Recognition and measurement

#### Adjusting events after the end of the reporting period

G32.4 An NPO shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.

G32.5 The following are examples of adjusting events after the end of the reporting period that require an NPO to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the end of the reporting period of a court case that confirms that the NPO had a present obligation at the end of the reporting period. The NPO adjusts any previously recognised **provision** related to this court case in accordance with Section 21 *Provisions and Contingencies* or recognises a new provision. The NPO does not merely disclose a **contingent liability**. Instead, the settlement provides additional evidence to be considered in determining the provision that should be recognised at the end of the reporting period in accordance with Section 21.

(b) the receipt of information after the end of the reporting period indicating that an **asset** was impaired at the end of the reporting period or that the amount of a previously recognised **impairment loss** for that asset needs to be adjusted. For example:

(i) the bankruptcy of a customer or grant provider that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a ~~trade~~ receivable and that the NPO needs to adjust the **carrying amount** of the ~~trade~~ receivable; and

(ii) the sale of **inventories** after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.

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

(d) the determination after the end of the reporting period of the amount of ~~profit-sharing or~~ bonus payments, if the entity had a legal or **constructive obligation** at the end of the reporting period to make such payments as a result of events before that date (see Section 28 *Employee Benefits*).

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

**Non-adjusting events after the end of the reporting period**

G32.6 An NPO shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.

G32.7 Examples of non-adjusting events after the end of the reporting period include:

(a) a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Consequently, an NPO does not adjust the amounts recognised in its financial statements for the investments. Similarly, the NPO does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure in accordance with paragraph G32.10.

(b) an amount that becomes receivable as a result of a favourable judgement or settlement of a court case after the **reporting date** but before the financial statements are authorised for issue. This would be a **contingent asset** at the reporting date (see paragraph G21.14) and disclosure may be required by paragraph G21.17. However, agreement on the amount of damages for a judgement that was reached before the reporting date, but was not previously recognised because the amount could not be measured reliably, may constitute an adjusting event.

### Dividends

G32.8 If an NPO declares a distribution to holders of **equity claims** after the end of the reporting period, the NPO shall not recognise those distributions as a **liability** at the end of the reporting period. The amount of the distribution may be presented as a segregated component of **funds with restrictions** or **funds without restrictions** at the end of the reporting period.

## Disclosure

### Date of authorisation for issue

G32.9 An NPO shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If ~~the entity's **owners** or~~ others have the power to amend the financial statements after issue, the NPO shall disclose that fact.

### Non-adjusting events after the end of the reporting period

G32.10 An NPO shall disclose the following for each category of non-adjusting event after the end of the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect or a statement that such an estimate cannot be made.

G32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue:

(a) a major **business combination** or disposal of a major **controlled entity**;

(b) announcement of a plan to discontinue an operation;

(c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government;

(d) the destruction of a major production plant by a fire;

(e) announcement, or commencement of the implementation, of a major restructuring;

(f) issues or repurchases of an NPO's ~~debt or~~ equity claims;

(g) abnormally large changes in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities;

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.