##### 1.15 Financial assets

**Contract assets and receivables**

A contract asset is recognised when *[reporting unit’s]* right to consideration in exchange goods or services that has transferred to the customer when that right is conditioned on *[reporting unit’s]* future performance or some other condition.

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e. only the passage of time is required before payment of the consideration is due).

Contract assets and receivables are subject to impairment assessment. Refer to accounting policies on impairment of financial assets below.

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and *[reporting unit’s]* business model for managing them. With the exception of trade receivables that do not contain a significant financing component, *[reporting unit]* initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are ‘solely payments of principal and interest’ (**SPPI**) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

*[Reporting unit’s]* business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that *[reporting unit]* commits to purchase or sell the asset.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified into five categories:

* (Other) financial assets at amortised cost
* (Other) financial assets at fair value through other comprehensive income
* Investments in equity instruments designated at fair value through other comprehensive income
* (Other) financial assets at fair value through profit or loss
* (Other) financial assets designated at fair value through profit or loss.

**Financial assets at amortised cost**

*[Reporting unit]* measures financial assets at amortised cost if both of the following conditions are met:

* The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
* The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (**EIR**) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

*[Reporting unit’s]* financial assets at amortised cost includes trade receivables and loans to related parties.

**Financial assets at fair value through other comprehensive income**

*[Reporting unit]* measures debt instruments at fair value through other comprehensive income (**OCI**) if both of the following conditions are met:

* The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
* The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost.

The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

*[Reporting unit’s]* debt instruments at fair value through other comprehensive income includes investments in quoted debt instruments included under other non-current financial assets.

**Investments in equity instruments designated at fair value through other comprehensive income**

Upon initial recognition, *[reporting unit]* can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under AASB 132 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, except when *[reporting unit]* benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

*[Reporting unit]* elected to classify irrevocably its listed and non-listed equity investments under this category.

**Financial assets at fair value through profit or loss (including designated)**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

**Derecognition**

A financial asset is derecognised when:

* The rights to receive cash flows from the asset have expired; or
* *[Reporting unit]* has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either:
  1. *[reporting unit]* has transferred substantially all the risks and rewards of the asset; or
  2. *[reporting unit]* has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When *[reporting unit]* has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, *[reporting unit]* continues to recognise the transferred asset to the extent of its continuing involvement together with associated liability.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**Impairment**

**Expected credit losses (ECLs)**

* + 1. **Debt instruments other than trade receivables**

The *[reporting unit]* recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the reporting unit expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. :

* For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).
* For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

*Reporting unit]* considers a financial asset in default when contractual payments are *[90 days*[[1]](#footnote-1) *]* past due. However, in certain cases, *[reporting unit]* may also consider a financial asset to be in default when internal or external information indicates that *[reporting unit]* is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

* + 1. **Trade receivables**

For trade receivables that do not have a significant financing component, the *[reporting unit]* applies a simplified approach in calculating ECLs. Therefore, the [reporting unit] does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The *[reporting unit*] has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

##### 1.16 Financial Liabilities

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, at amortised cost or at fair value through profit or loss.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

*[Reporting unit’s]* financial liabilities include trade and other payables.

**Subsequent measurement**

**Financial liabilities at fair value through profit or loss (including designated)**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Gains or losses on liabilities held for trading are recognised in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 *Financial Instruments* are satisfied.

**Financial liabilities at amortised cost**

After initial recognition, trade payables and interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

1. 14 Note: Reporting unit to update as applicable [↑](#footnote-ref-1)