Saudi Accounting Framework
in comparison with
IFRS Framework

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March 7, 2012
Agenda

- Status of Accounting Standards in Saudi Arabia
- SOCPA IFRS Convergence Project
- Analysis of some major differences between Saudi GAAP with IFRSs
STATUS OF ACCOUNTING STANDARDS IN SAUDI ARABIA
Regulatory Framework

SOCPA regulates Accounting profession:
Saudi GAAP as issued by SOCPA (in Arabic) are applicable on all type of companies.

There are two main regulators besides SOCPA:
• Capital Market Authority (CMA)
  Regulates all listed companies.
• Saudi Arabian Monetary Agency (SAMA)
  Regulates all Banks, Insurance companies and IFRSs are followed.
Saudi Accounting Framework

In the absence of SOCPA standard / opinion on a particular accounting matter, relevant standard issued by IASB should be considered.

In the absence of both, accounting standard or the professional opinion or an application approved by SOCPA and which is one of the locally or internationally generally accepted applications.
Adoption status of IAS/IFRS

Although the accounting standards issued by SOCPA are 21 in total, the *General Presentation and Disclosure Standard* covers six topics that are addressed individually by the following IFRSs:

- IAS 1 *Presentation of Financial Statements*
- IAS 7 *Cash Flow Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 10 *Events after the Balance Sheet Date*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*
Adoption status of IAS/IFRS

• 18 currently effective IFRSs have direct corresponding SOCPA Accounting Standards
• 6 currently effective IFRSs are partially covered by SOCPA Accounting Standards
• 9 currently effective IFRSs have no corresponding SOCPA Accounting Standards
• 3 SOCPA Accounting Standards have no corresponding IFRSs
IFRSs having direct corresponding SOCPA Accounting Standards

1. Presentation of Financial Statements (IAS 1)
2. Inventories (IAS 2)
3. Construction Contracts (IAS 11)
4. Income Taxes (IAS 12)
5. Property, Plant and Equipment (IAS 16)
6. Leases (IAS 17)
7. Revenue (IAS 18)
8. Accounting for Government Grants (IAS 20)
9. Foreign Currency (IAS 21)
10. Related Party Disclosures (IAS 24)
11. Consolidated and Separate Financial Statements (IAS 27)
12. Investments in Associates (IAS 28)
13. Earnings Per Share (IAS 33)
15. Impairment of Assets (IAS 36)
16. Intangible Assets (IAS 38)
17. Operating Segments (IFRS 8)
18. Business Combinations (IFRS 3)
IFRSs having partial corresponding SOCPA Accounting Standards

1. Cash Flow Statements (IAS 7)
2. Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)
3. Events After the Balance Sheet Date (IAS 10)
4. Borrowing Costs (IAS 23)
5. Provisions, Contingent Liabilities and Contingent Assets (IAS 37)
6. Financial Instruments - Recognition and measurement (IAS 39)
7. Non-Current Assets Held for Sale and Discontinued Operations (IFRS 5)
IFRSs having no corresponding SOCPA Accounting Standards

1. Employee Benefits (IAS 19)
2. Accounting and Reporting by Retirement Benefit Plans (IAS 26)
3. Financial Reporting in Hyperinflationary Economies (IAS 29)
4. Interests in Joint Ventures (IAS 31)
5. Financial Instruments - Presentation (IAS 32)
6. Investment Property (IAS 40)
7. First-time Adoption of IFRSs (IFRS 1)
8. Insurance Contracts (IFRS 4)
9. Exploration for and Evaluation of Mineral Resources (IFRS 6)
10. IFRS 7
11. IFRS 9
SOCPA Accounting Standards having no corresponding IFRSs

1. Research And Development Costs
2. Accounting For Zakat
3. Administrative And Marketing Expenses
SOCPA Accounting Standards under development

SOCPA is currently working on the following eight standards:

1. Financial instruments (IAS 32)
2. Liabilities and contingencies (IAS 37)
3. Cost of software (IAS 38)
4. Agriculture (IAS 41)
5. Share dividend (IFRS 2)
6. Investment Property (IAS 40)
SOCPA Professionals opinions and interpretations

1. Presentation and depreciation of idle assets.
2. Presentation of early production of trees.
3. Amendment of productive age of fixed assets that is depreciated but still utilized.
4. Under construction entity to prepare incomplete set of financial statements?
5. Capitalization of financing cost of fixed assets.
6. Revaluation of fixed assets that is depreciated but still utilized.
7. Accounting treatment for real estate units prepared for sale by participation in time.
8. Impairment of investment securities
9. Costs and Revenue during Commissioning Period
SOCPA IFRS CONVERGENCE PROJECT
Convergence Approach

Determine whether each IFRS meets specified criteria set out in local/sharia requirements

Develop IFRS-equivalent Saudi Accounting Standards for the local regulatory framework with changes such as removing optional treatments and adding disclosure requirements, where appropriate

Present the Saudi Accounting Standards so developed for approval of SOCPA Board after completing the due process
Convergence Approach

• Ultimate objective is full convergence with IFRS
• Simplified standards for non public interest entities
• Application date of converged standards at a later date with the option of voluntary early application
• SOCPA Survey
• A team of consultants has started working based on grouping of standards
SOCPA Survey

Introduction

SOCPA is currently considering to issue its accounting standards based on the IFRSs after reviewing the local regulatory and other requirements. Purpose of this survey is to seek input from all the relevant stakeholders for identifying such issues based on which SOCPA may make modifications in the current text of IFRSs in order to be applicable in the Kingdom.

Access to IFRS

You may refer the IFRSs electronically from the following website of IASB:

http://www.ifrs.org/IFRSs/IFRS.htm

CPD credit

SOCPA will allow CPD credit of 1-15 hours depending upon the nature of your responses.
‘Marathon’ ahead
Critical success factors for IFRS conversion projects

- Leadership
- Strategy
- Communication
- Time
- Resources
- Project Management
- Knowledge
The task ahead – what is required to win the Marathon?

Teamwork & Partnership
required within each entity and among all external stakeholders

IFRS Convergence is not just a ‘Finance/Accounting’ issue but ‘Entity wide’ issue and also it is a ‘Country Wide’ issue.
COMPARISON OF SAUDI STANDARDS WITH IFRS
Quick comparison amongst principal statements

<table>
<thead>
<tr>
<th>Principal Statements</th>
<th>Principal Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOCPA</td>
<td>IFRS</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>Statement of Financial Position</td>
</tr>
<tr>
<td>Statement of Income</td>
<td>Statement of Comprehensive Income (A separate Statement of income is required if two statement approach is followed)</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>Statement of changes in equity</td>
</tr>
<tr>
<td>Statement of Changes in Shareholders’ Equity</td>
<td>Statement of Cash Flows</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>Notes to the financial statements</td>
</tr>
</tbody>
</table>

*Note the difference in sequence of the statements*
Key differences between IFRS and SOCPA

- General

Fair presentation

**SOCPA Accounting Standards**

- No such presumption

**IFRS**

- There is a presumption that application of IFRS would lead to fair presentation.
**Key differences between IFRS and SOCPA**

- **General**
  
  **Departure from IFRS**

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Not required.</td>
<td>• IAS 1 requires specific disclosure for departures from IFRS.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA - General

Critical accounting judgments

SOCPA Accounting Standards

• Not required.

IFRS

• IAS 1 requires disclosure of critical judgments made by management in applying accounting policies.
Key differences between IFRS and SOCPA - General

Statement of unreserved compliance with IFRS

SOCPA Accounting Standards

• Not required.

IFRS

• IAS 1 requires specific disclosure for explicit and unreserved statement of compliance with IFRS.
Key differences between IFRS and SOCPA - General

Presentation of financial statements

Classification of liabilities

SOCPA Accounting Standards

- Liabilities for which contractual arrangements have been made for their settlement from other than current assets should be removed from current liabilities before issuing the financial statements. Examples of these liabilities are:
  - Short-term loans which will be paid by the proceeds from long-term loans.
  - Commercial debts agreed to be settled by issuing capital stocks.

IFRS

- Liabilities are classified as non-current only if refinancing is completed before the end of the reporting period.
Key differences between IFRS and SOCPA - General

Presentation of Balance sheet
Current Vs Non-current

SOCPA Accounting Standards

• Deferred taxes are presented as current or non-current based on the nature of the related asset or liability.

IFRS

• Deferred taxes are presented as non-current.

(Note: In the joint convergence project on income taxes, IFRS is expected to converge with US GAAP and hence present deferred tax as current or non-current based on the nature of the related asset or liability)
Key differences between IFRS and SOCPA - General

Presentation of financial statements

Extra ordinary items

SOCPA Accounting Standards

• Saudi GAAP specifically requires disclosure for Extra-ordinary items.

IFRS

• IAS 1 prohibits any items to be disclosed as extraordinary items.
Key differences between IFRS and SOCPA - General

Presentation of financial statements
Income statement expense classification

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required to present expenses based on function (for example, cost of sales, administrative).</td>
<td>Entities may present expenses based on either function or nature (for example, salaries, depreciation).</td>
</tr>
</tbody>
</table>

Note: There is a separate SOCPA standard on “Administrative and Marketing Expenses”, which requires the Administration and Marketing Expenses to be disclosed separately – which clearly indicates that presentation should be by “Function”.

However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.
### Key differences between IFRS and SOCPA - General

#### Presentation of financial statements

**Comparatives**

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparative period should be similar.</td>
<td>Comparative period may be shorter or longer with disclosure of reasons for the same.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Inventories

Measurement method

**SOCPA Accounting Standards**

- Weighted average method is a preferable method for similar items. However, FIFO or LIFO methods may be used provided reasons and quantifying the difference with weighted average is disclosed.

- Consistent cost formula for all inventories similar in nature is not explicitly required.

**IFRS**

- LIFO is prohibited, however the entity can choose FIFO or weighted average cost method for valuing its inventories.

- Same cost formula must be applied to all inventories similar in nature or use to the entity.
Key differences between IFRS and SOCPA – Balance sheet

**Inventories**

<table>
<thead>
<tr>
<th>Reversal of inventory write-downs</th>
</tr>
</thead>
</table>

**SOCPA Accounting Standards**

- Not covered

**IFRS**

Previously recognized impairment losses are reversed, up to the amount of the original impairment loss when the reasons for the impairment no longer exist.
Key differences between IFRS and SOCPA – Balance sheet

**Inventories**

Measuring inventory at net realisable value even if above cost

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Permitted, but based on a specific product (precious metals).</td>
<td>Permitted only for producers’ inventories of agricultural and forest products and mineral ores and for broker-dealers’ inventories of commodities.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Inventories

Measuring inventory at net realisable value even if above cost

2.9 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined, for finished goods, on a weighted average basis and includes cost of materials, labor and an appropriate proportion of direct overheads. All other inventories are valued on a moving average basis and a provision is established for items deemed to be slow moving or obsolete.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Measurement after initial recognition

SOCPA Accounting Standards

- Measured at cost less accumulated depreciation and impairment losses.
- Revaluation is prohibited.

<table>
<thead>
<tr>
<th>SOCPA</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Benchmark treatment – measure the asset at cost less accumulated depreciation and impairment losses.</td>
</tr>
<tr>
<td></td>
<td>Allowed alternative treatment – measure assets at their Fair values with the changes in fair values being credited to a revaluation reserve shown under equity of the entity.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA - Cash flow statement

DIRECT VERSUS INDIRECT METHOD

SOCPA Accounting Standards

Only specifies format of indirect method in the presentation standard

IFRS

- Financial statement preparers have a choice between the direct and the indirect method in presenting the operating activities section of the statement of cash flows. IAS 7 recommends the direct method of presenting net cash from operating activities.
Key differences between IFRS and SOCPA - Cash flow statement

Cash and Cash Equivalents

SOCPA Accounting Standards
SOCPA Standard for “Cash Flow Statement” does not refer to a specific period with regard to cash equivalents.

IFRS

- IAS 7 gives guidance to state that cash equivalents should be “when it has a short maturity of, say, three months or less from the date of acquisition.”
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment
Capitalization of Dismantling and Site Restoration Costs

**SOCPA Accounting Standards**

- No guidance in the standard.

| IFRS |  
| --- | --- |
| Provision on site-restoration and dismantling is mandatory. To the extent it relates to the fixed asset, the changes are added/deducted (after discounting) from the asset in the relevant period. |  

Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Capitalization of Dismantling and Site Restoration Costs

2.20 Mine closure and reclamation

The mining, extraction and processing activities of the Company normally give rise to obligations for site closure or rehabilitation. Mine closure and rehabilitation works can include facility decommissioning and dismantling, removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of current laws and regulations.

Estimated rehabilitation obligations are provided for in the accounting period when the obligation arising from the related disturbance occurs and is based on the net present value of estimated future costs. The full estimated costs are deferred and then amortized to expense over the expected life of the mine on straight-line basis. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgments and estimates involved. Factors influencing those changes include:
## Key differences between IFRS and SOCPA – Balance sheet

**Property plant and equipment**

**Depreciation on components of an asset**

<table>
<thead>
<tr>
<th><strong>SOCPA Accounting Standards</strong></th>
<th><strong>IFRS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Not covered.</td>
<td>• Components of an asset with differing patterns of benefits must be depreciated separately.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Depreciation on idle asset

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Depreciation is not calculated on the fixed assets that were determined to be disposed of immediately upon taking that decision. However, there is no mention of idle assets.</td>
<td>• Should be depreciated even it is idle, but not if it is held for sale</td>
</tr>
<tr>
<td>• Opinion issued by SOCPA - assets that were permanently idle and still in the entity’s possession should be – if material – should be separated from other assets and their depreciation should be suspended.</td>
<td></td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Government Grants

SOCPA Accounting Standards

- Not covered. The Saudi standard on Government Grants requires it to be accounted for as owner’s equity.

IFRS

- Government grants received in connection with acquisition of PPE may be offset against the cost.
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment
Reassessment of useful life, residual value and depreciation method

SOCPA Accounting Standards

• Reviewed only when events or changes in circumstances indicate.
• Opinion issued by SOCPA

IFRS

• Requires annually.
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Measurement of self constructed asset

SOCPA Accounting Standards

• Fixed asset that is self-constructed, shall be recognized at the lower of cost or fair value when it is ready for use. The difference between the cost of the asset and its fair value shall be charged to the fiscal period in which such asset is ready for use.

IFRS

• On the same basis as acquired asset.
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Measurement of self constructed asset

2.11 Capital work-in-progress

Assets in the course of construction are capitalized in the capital work-in-progress account. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Costs associated with a start up period are capitalized where the asset is available for use but incapable of operating at normal levels without a commissioning period. Capital work-in-progress is not depreciated.
Key differences between IFRS and SOCPA – Balance sheet

### Property plant and equipment

#### Compensation for impairment

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Only losses are recognized when becomes receivable. Unrealized gains are not recognized.</td>
<td>• Compensation from third parties for impairment or loss of items of PPE are included in the profit and loss account when the compensation becomes receivable.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment
Compensation for impairment

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Revenue during commissioning period

**SOCPA Accounting Standards**

- Covered only to the extent of capitalizing pre-operating costs. No mention of incidental revenue.

**IFRS**

- Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) should be capitalized;
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Revenue during commissioning period

Construction work in progress (CWIP)

CWIP are recognized at cost of materials and services needed to fabricate the plant and equipment plus salaries and other costs that can be specifically identified as necessary costs to have the plant ready for its intended use and other overheads allocated on a systematic basis as well as capitalized borrowing costs. The cost of CWIP is reduced by the net proceeds from sale of products during commissioning phase.

Related Party Transactions

The company has sold part of its testing products during the year to one of its related parties which amounted to 117.3 million.
## Key differences between IFRS and SOCPA – Balance sheet

<table>
<thead>
<tr>
<th></th>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible Assets</td>
<td>May be capitalized</td>
<td>Not allowed to be capitalized</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Intangible Assets
Measurement after initial recognition

SOCPA Accounting Standards
Should be measured at its historical cost less accumulated amortisation.

IFRS
Can be held at cost or at fair value.
Key differences between IFRS and SOCPA – Balance sheet

Intangible Assets

2.12 Pre-operating expenses and deferred charges

Exploration, evaluation, development and pre-operating expenses are expensed in the period incurred until a prospective exploration project or mine is identified as having economical development potential. Once a prospective exploration project or mine has been determined to have economical development potential, the subsequent development and pre-operating expenses incurred on the project or mine are deferred net of proceeds from the sale of any production during the development period and then amortized over the expected life of the mine or a period of seven years whichever is lower. If a project or mine is no longer considered economical, the accumulated project costs are charged to income in the period in which the determination is made.
Key differences between IFRS and SOCPA – Balance sheet

Borrowing Costs

Qualifying Assets

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited to fixed assets that take substantial period of time to get ready for its intended use or sale</td>
<td>Includes inventories that require substantial period of time to bring them in saleable condition</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Property plant and equipment

Impairment assessment

SOCPA Accounting Standards

• SOCPA also lists various factors however initially the impairment is assessed by comparing the gross undiscounted cash flows from the assets with its carrying value.

• If gross cash flows are higher than carrying amount = no impairment

• If gross cash flows are lower than carrying amount = impairment is recognized based on discounted cash flows.

IFRS

• IAS 36 has a list of external and internal indicators of impairment.

• If there is an indication that an asset may be impaired, then the asset's recoverable amount is calculated – which is higher of assets net selling price or value in use.

• The difference between recoverable amount and carrying value is impairment.
Key differences between IFRS and SOCPA – Balance sheet

**INVESTMENT PROPERTIES**

**Accounting for investment properties**

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shall be valued at cost.</td>
<td>Investment property shall be measured at its cost or fair value.</td>
</tr>
<tr>
<td>SOCPA allows only disclosure of the fair value information in the explanatory notes to the financial statements</td>
<td></td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Financial instruments

General

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• SOCPA has issued a separate standard dealing with investment in securities – however the guidance is limited and detailed aspects are not covered.</td>
<td>• Separate standards for accounting and disclosure of Financial instruments has been issued which contains extensive guidance.</td>
</tr>
<tr>
<td>• Practically companies are applying IFRS where guidance in SOCPA is not available.</td>
<td>• The standards are being further enhanced and looks into all aspects of financial instruments like classification, recognition and measurement, de-recognition, impairment etc.</td>
</tr>
<tr>
<td>• No guidance available regarding accounting of derivatives.</td>
<td>• Detailed guidance available for accounting for derivatives and hedges</td>
</tr>
<tr>
<td>• No guidance on hedge accounting</td>
<td></td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Financial instruments

Classification

**SOCPA Accounting Standards**

- Financial instruments can be classified as
  - Trade securities
  - Available for sale
  - Held to Maturity

Loans and receivables is specifically not mentioned as the SOCPA standard deals with Investment in securities only

- Transfers between classes is ordinarily permissible.

**IFRS**

- Financial instruments can be classified as
  - At fair value through profit or loss (which includes trading and designated instruments)
  - Available for sale
  - Held to Maturity
  - Loans and receivables

- Transfer between classes is permissible if certain conditions are met.
**Key differences between IFRS and SOCPA – Balance sheet**

### Financial instruments

#### Measurement

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• On acquisition, Securities shall be measured and recorded at <strong>cost</strong>. The cost includes the purchase price and all the expenses incurred by the enterprise for the purpose of acquiring the securities.</td>
<td>• Initially, financial assets and liabilities should be measured at <strong>fair value</strong> (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).</td>
</tr>
<tr>
<td>• <strong>Determination of FV</strong>: Securities which have no active market and there are no sufficient indicators to allow determination of market value objectively (e.g. Equity securities) then the cost is considered as most appropriate objective and reliable measurement of the fair value of securities.</td>
<td>• <strong>Determination of FV</strong>: IAS 39 provides a hierarchy to be used in determining the fair value for a financial instrument and assumes that fair value of the instrument cannot be determined only in rare cases.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Balance sheet

Financial instruments

Impairment

SOCPA Accounting Standards

• Decline in fair value is considered other than temporary if there are certain indicators proving its continuity or these indicators could indicate the nature of the decline

• Significance of the decline and period has to be considered while determining whether the decline in fair value is to be considered as impairment.

IFRS

• Decline in fair value is considered permanent and the security is considered impaired if the decline in its fair value below cost is significant or prolonged.

• Other qualitative factors are also to be considered.
Key differences between IFRS and SOCPA – Income statement

Foreign Currency

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency transactions are recognized and reported in Saudi Riyals only.</td>
<td>A foreign currency transaction shall be recorded, on initial recognition in the functional currency, which may be other than the presentation currency.</td>
</tr>
</tbody>
</table>
Key differences between IFRS and SOCPA – Special Topics

Employee benefits

Post employment benefits

SOCPA Accounting Standards

• Limited guidance available however the standards do require the long term obligations to be discounted to reflect the current costs.
• Practically, companies are accounting for the End of Service Benefits (EOSB) obligations based actual payments that the Company would require to make – few companies are using the actuarial valuations also.

IFRS

• Detailed guidance is available under IAS 19 for post employment benefits.
• The accounting requires the Companies to discount their obligation under the defined benefit plans and reflect the current costs in their financial statements – the present obligation is usually determined based on actuarial advice.
Key differences between IFRS and SOCPA – Special Topics

Employee benefits
Post employment benefits

2.21 End-of-service indemnities

Employees’ end-of-service benefits are payable as a lump sum to all employees employed under the terms and conditions of Saudi Labor and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees’ final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.
Key differences between IFRS and SOCPA – Special Topics

Taxation and Zakat

**SOCPA Accounting Standards**

- Zakat is charged to income statement if the Company is wholly owned by Saudi shareholders otherwise it is charged to equity
- Income tax is charged to the income statement if the Company is wholly owned by non-local shareholders otherwise it is charged to equity
- Deferred tax requirements are similar to IFRS however IFRS is much more detailed.

**IFRS**

- Income tax is covered and is a charge to the income statement
- No separate standard available to deal with Zakat
- Deferred tax is provided for all temporary differences
Key differences between IFRS and SOCPA – Special Topics

Leases

Criteria for classification as finance lease

**SOCPA Accounting Standards**

Prescriptive – should satisfy one of the following four conditions to be classified as finance lease

- 90% of the value of the assets
- 75% of the life of the assets
- Bargain purchase option
- Transfer of ownership at the end of the lease term

**IFRS**

Principle based - substance over form requirement – transfer of substantially all risks and rewards incident to ownership is to be considered while deciding the classification of the lease
## Key differences between IFRS and SOCPA – Special Topics

### Interim financial reporting

**Minimum contents**

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Minimum contents</td>
<td>• Minimum contents</td>
</tr>
<tr>
<td>– Balance sheet</td>
<td>– Condensed statement of financial position</td>
</tr>
<tr>
<td>– Income statement</td>
<td>– Condensed comprehensive income</td>
</tr>
<tr>
<td>– Cash flows statement</td>
<td>– Condensed statement of changes in equity</td>
</tr>
<tr>
<td>– Selected explanatory notes</td>
<td>– Condensed cash flow statement</td>
</tr>
<tr>
<td>• A statement that results for the interim period may not give an accurate indicator of the annual operating results is required to be included</td>
<td>• No such statement required</td>
</tr>
</tbody>
</table>

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*Note: The image includes a logo and a page number (66).*
Key differences between IFRS and SOCPA – Special Topics

Interim financial reporting

Integral vs discrete approach

SOCPA Accounting Standards

- Requires the totality approach which considers that each period of the fiscal year is an integral part of the whole fiscal year.

IFRS

- Generally allows the integral approach but also allows discrete approach in certain cases like changes in estimates.
Key differences between IFRS and SOCPA – Special Topics

Interim financial reporting
Comparatives

SOCPA Accounting Standards

• The comparative balance sheet reflects the balances as at the end of the corresponding period.

• For example in the financial statements for interim period ended 30 June 2010 - the balance sheet comparative should show balance sheet as at 30 June 2009.

IFRS

• The comparative balance sheet reflects the balances as at the end of the last financial year.

• For example in the financial statements for interim period ended 30 June 2010 - the balance sheet comparative should show balance sheet as at 31 December 2009.
### SAVALA GROUP COMPANY
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**
As at June 30, 2010

<table>
<thead>
<tr>
<th>Note</th>
<th>2010 (SR 000)</th>
<th>2009 (SR 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>589,736</td>
<td>660,757</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>1,663,198</td>
<td>1,596,329</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,379,628</td>
<td>2,370,294</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>1,128,021</td>
<td>992,673</td>
</tr>
<tr>
<td>Total current assets</td>
<td>5,700,585</td>
<td>3,620,035</td>
</tr>
<tr>
<td>Non-current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>5,942,260</td>
<td>4,589,353</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,107,784</td>
<td>1,257,616</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,067,471</td>
<td>4,609,646</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>12,117,515</td>
<td>10,456,615</td>
</tr>
<tr>
<td>Total assets</td>
<td>17,878,098</td>
<td>16,076,668</td>
</tr>
<tr>
<td><strong>Liabilities and Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term bank debts</td>
<td>1,394,199</td>
<td>1,872,358</td>
</tr>
<tr>
<td>Current portion of long-term debts</td>
<td>807,635</td>
<td>317,268</td>
</tr>
<tr>
<td>Trade payables</td>
<td>2,031,899</td>
<td>1,824,055</td>
</tr>
<tr>
<td>Accrued expenses and other current liab.</td>
<td>1,413,100</td>
<td>1,431,527</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>5,646,833</td>
<td>5,445,308</td>
</tr>
<tr>
<td>Non-current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred gain</td>
<td>96,051</td>
<td>32,265</td>
</tr>
<tr>
<td>Long-term payables</td>
<td>89,982</td>
<td>74,333</td>
</tr>
<tr>
<td>Long-term debts</td>
<td>3,213,578</td>
<td>2,720,763</td>
</tr>
<tr>
<td>Employees’ termination benefits</td>
<td>269,149</td>
<td>244,044</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>3,638,760</td>
<td>3,071,305</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>9,285,593</td>
<td>8,516,513</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity attributable to the Company’s shareholders:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Statutory reserve</td>
<td>868,102</td>
<td>772,945</td>
</tr>
<tr>
<td>General reserve</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Unrealized (loss) on investments</td>
<td>(80,158)</td>
<td>(717)</td>
</tr>
<tr>
<td>Foreign currency translation account</td>
<td>(264,670)</td>
<td>(191,956)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,529,572</td>
<td>978,807</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>7,116,846</td>
<td>6,563,079</td>
</tr>
<tr>
<td>Minority interest</td>
<td>1,476,669</td>
<td>997,076</td>
</tr>
<tr>
<td>Total equity</td>
<td>8,593,515</td>
<td>7,560,155</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>17,878,098</td>
<td>16,076,668</td>
</tr>
</tbody>
</table>

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.
Key differences between IFRS and SOCPA – Special Topics

Consolidated and separate financial statements

Minority interest

SOCPA Accounting Standards

Shall be presented as a separate component of the equity section

IFRS

Shall be presented within equity separately from the parent shareholders’ equity
Key differences between IFRS and SOCPA – Special Topics

Related Parties

**SOCPA Accounting Standards**

- **Transaction oriented** – e.g. disclosure to identify controlling party not needed as long as there were no transactions
- External auditor is also a related party
- No mention of disclosure for management compensation

**IFRS**

- Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them.
- External auditor is not a related party
- Detailed disclosures required for all types of management compensation
Key differences between IFRS and SOCPA – Special Topics

Agriculture

<table>
<thead>
<tr>
<th>SOCPA Accounting Standards</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Does not allow the same through one of its opinion</td>
<td>• Measure biological assets/producing cattle (non-current assets) at fair value</td>
</tr>
</tbody>
</table>
CONCLUSION
End Note

► Transparency and integrity of financial reporting is essential for financial stability and growth.

► Effective financial reporting depends not only on high quality accounting standards but also on the consistent and faithful application of those standards.

► The financial crises have further strengthened the case for convergence of global financial reporting standards.
Thank you

Questions & Comments

asifiqbal@socpa.org.sa

The views expressed in this presentation are those of the presenter. Official positions of the SOCPA are determined only after extensive due process and deliberation.