IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 13 FAIR VALUE MEASUREMENT

Nina Sormunen

2.5.2018

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 Learning Objectives

1. Explain the scope of IFRS 15
2. 5-step model
3. Main presentation and disclosure requirements

IFRS 15 - Scope

- IFRS 15 is effective for annual periods beginning on or after 1 January 2018

What is in scope or affected

- Contracts with customers
- Sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., property, plant and equipment, intangible assets)

What is NOT in scope

- Rental income (IFRS 16)
- Interest and dividends (IFRS 9)
- Borrowings, since they increase liabilities, not equity
- Amount contributed by shareholders (share issues)
- Gains (e.g. through disposal of non-current asset)

Revenue is *"income arising in the course of an entity's ordicary activities"*

The five step model

The five-step model

Core principle	Recognise revenue to describe the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services
Step 1:	Identify the contract(s) with a customer
Step 2:	Identify the performance obligations in the contract
Step 3:	Determine the transaction price
Step 4:	Allocate the transaction price to the performance obligations
Step 5:	Recognise revenue when (or as) the entity satisfies a performance obligation

Step 1: Identify the contract

Step 1: Identify the contract
Definition of a contract

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations
- Can be written, oral or implied, but must meet specific criteria
- Does not exist if both parties can cancel a wholly unperformed contract without penalty

- Parties have approved the contract and are committed to perform
- Each party's rights are identifiable
- Each party's payment terms are identifiable
- Contract has commercial substance
- It is probable the entity will collect the consideration it is entitled to in exchange for the transfer of goods/services to the customer

These criteria are assessed at the inception of the arrangement
- If the criteria are met at inception, reassessment only occurs if there is a significant change in facts and circumstances
- If the criteria are not met at inception, continue to assess

Step 1: Identify the contract
Case

- Tech Co. enters into an arrangement with a customer in a new region for networking products for promised consideration of CU1 million
- The new region is experiencing economic difficulty; however, Tech Co. expects the economy to recover over the next two to three years
- Tech Co. expects that it may not be able to collect the full amount from the customer
- Tech Co. determines it may have to grant the customer a price concession, and it is willing to do so up to CU200,000

IS COLLECTABILITY PROBABLE?

Step 1: Identify the contract
Case

- At contract inception, Tech Co. expects that it may not be able to collect the full amount from the customer
- Tech Co. considers whether the customer has the ability and intent to pay the estimated transaction price, which may be an amount less than the contract price
- Tech Co. determines at contract inception that it may be forced to grant the customer a price concession, and it was willing to do so up to CU200,000, if necessary

The amount to which Tech Co. is entitled is CU800,000 and, Tech Co. performs the collectability assessment based on that amount rather than the CU1 million contract price

Step 1: Identify the contract
Combining contracts

Two or more contracts entered into at or near the same time with the same customer (or related parties) are combined and accounted for as a single contracts if any of the following conditions are met:

- Contracts are negotiated as a package with a single commercial objective
- Consideration in one contract depends on the price or performance of the other contract
- Some or al of the goods and services promised in the contracts are single performance obligation

Step 1: Identify the contract
Example

- The entity enters into a contract to deliver equipment to Company A
- A few days later the entity agrees in a separate contract to provide installation services to significantly customize the equipment

As the two contracts

a) were entered into at nearly the same time with the same customer and
b) the goods and services represent a single performance obligation

the entity determines that the two contracts <u>have to be combined</u>

Step 1: Identify the contract
Contract modifications

A contract modification is an approved change in the scope or price (or both) of a contract that creates new or changes existing enforceable rights and obligations of the parties to the contract

Scope of the contract increases due to added goods or services that are distinct

Price of the contract increases by the stand-alone selling price of the added goods or services

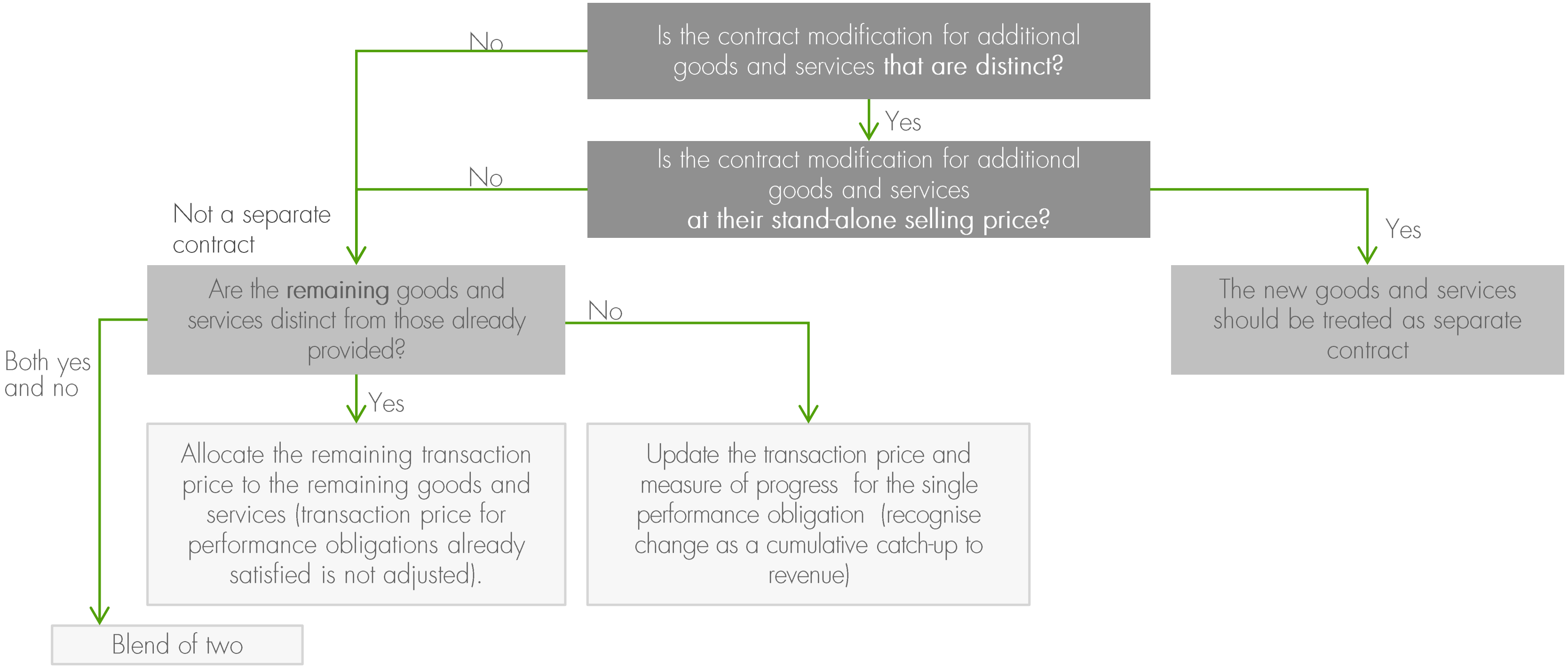
Separate contract

All other modifications

Part of original contract

Accounting treatment would depend on the nature of the modification

Step 1: Identify the contract
Contract modifications



Step 1: Identify the contract
Case

- The entity enters into an arrangement to sell 120 products to a customer for CU12,000 (CU100 per product).
- The products are transferred to the customer over a six-month period
- After the entity has transferred control of 60 products to the customer, the contract is modified to require the delivery of an additional 30 products to the customer (a total of 150 identical products)
- When the contract is modified, the price of the contract modification for the additional 30 products is an additional CU 2,850 or CU 95 per product (stand-alone selling price)

How should the entity account for the contract modification under the new standard?

Step 1: Identify the contract
Case

Scenario A

The entity determines:

1. The additional products are distinct from the original products and
2. The pricing for the additional products reflects the stand-alone selling price of the products at the time of the contract modification

The contract modification is considered a separate contract for the additional products, and it would not affect the accounting for the existing contract

Separate contract

Step 1: Identify the contract

Case

Scenario B

When the contract is modified, the price of the contract modification for the additional 30 products is an additional CU 2,400 or CU 80 per product (not a stand-alone selling price)

The entity determines:

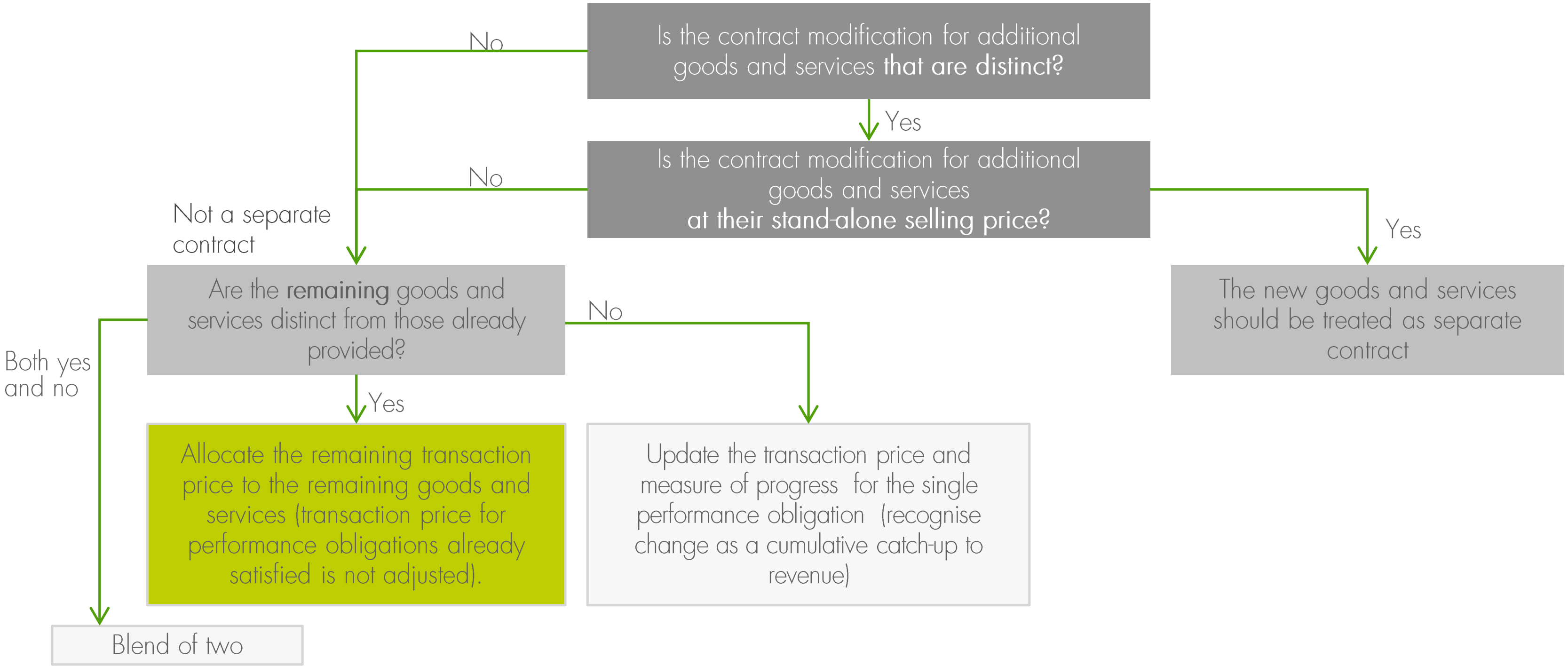
- The additional products are distinct from the original products
- The negotiated price of CU 80 per product does not reflect the stand-alone selling price of the additional products

Due to the pricing, the contract modification does not meet the conditions to be accounted for as a separate contract

What would be the new amount recognized as revenue?

Part of original contract

Step 1: Identify the contract
Contract modifications



Step 1: Identify the contract
Case

Scenario B

Consequently, the amount recognised as revenue for each of the remaining products is <u>a blended price</u> calculated as follows:

(CU100×60 products not yet transferred under the original contract)

\+

(CU80×30 products to be transferred under the contract modification)

÷

90 remaining products

= CU93.33

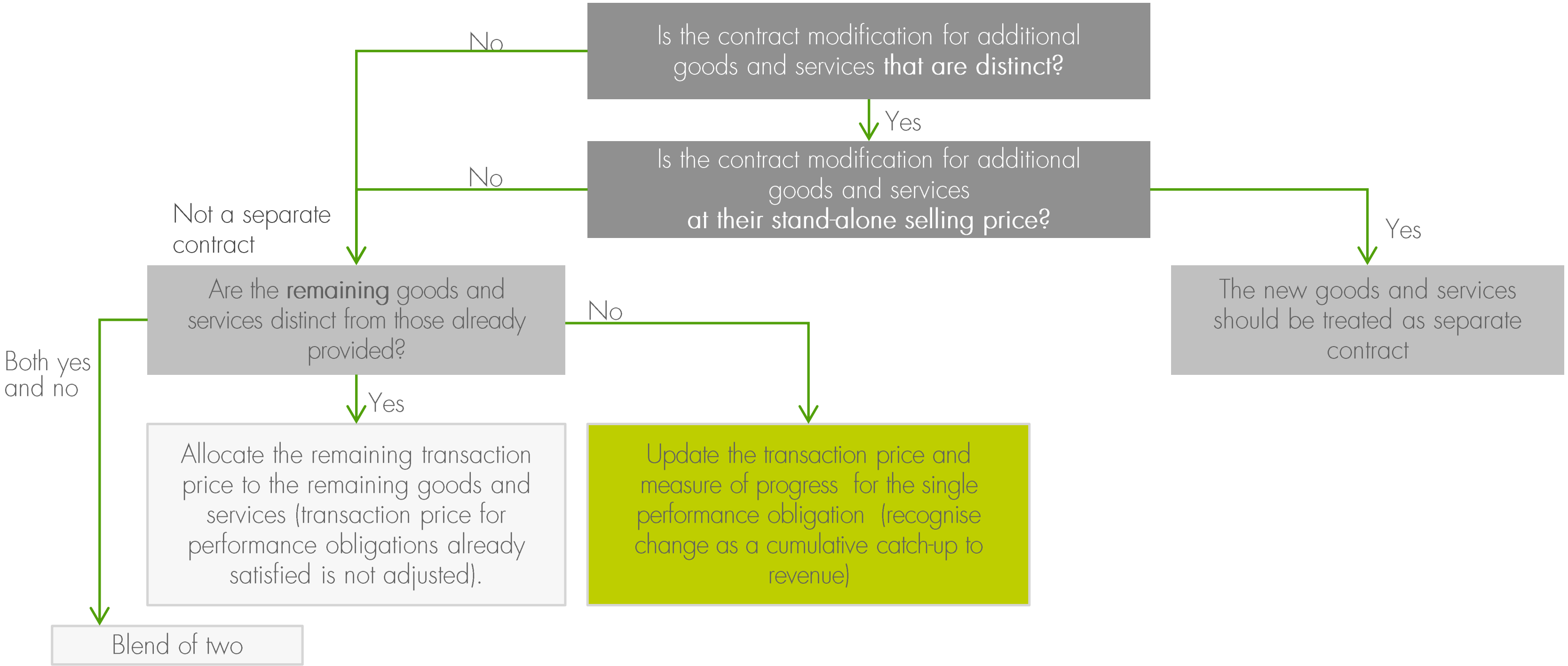
Part of original contract

Step 1: Identify the contract
Case 2

- The entity enters into an arrangement to construct a building for a customer for promised consideration of CU1 million
- The entity accounts for the promised bundle of goods and services as a single performance obligation satisfied over time
- At the inception of the contract, the entity expects the following:
  Transaction price CU 1,000,000 – Expected costs CU 700,000
  = Expected profit (30%) CU 300,000
- In the first quarter of the second year, the contract is modified by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU 150,000 and CU 120,000, respectively.

How should the entity account for the contract modification under the new standard when CU420,000 of the total costs have already incurred?

Step 1: Identify the contract
Contract modifications



Step 1: Identify the contract
Case 2

Consequently, the entity accounts for the contract modification as if it were part of the original contract and updates the transaction price and measure of progress for the single performance obligation (a cumulative catch-up to revenue):

	Transaction price CU	Estimated costs CU	Actual costs on the date of the modification CU	Percentage of completion	Revenue CU
Revenue recognised before the contract modification	1,000,000	700,000	420,000	60%	600,000
Revised revenue recognised at the date of the contract modification	1,150,000	820,000	420,000	51,2%	588,800

The entity updates its measure of progress and estimates that it has satisfied 51,2% percent of its performance obligation. Revenue is decreased by CU 12,200 [CU 600,000 – CU 588,800 = CU 12,200] at the date of the modification as a cumulative catch-up adjustment

Step 2: Identify performance obligations

Step 2: Identify performance obligations
Overview

Performance obligation	A performance obligation is a promise (explicit or implicit) to transfer to a customer either: ▶ A distinct good or service ▶ A series of distinct goods or services that are substantially the same and have the same pattern of transfer
Determining performance obligations	Performance obligations are identified at contract inception and determined based on: ▶ Contractual terms ▶ Customary business practices
Marketing incentives	Incidental obligations or marketing incentives may be performance obligations (e.g., "free" maintenance provided by automotive manufacturers, loyalty points provided by a hotel)

Step 2: Identify performance obligations

Distinct goods or services

Two-step model to identify which goods or services are distinct

Step 1

Focus on whether the good or service is *capable of being distinct*

Customer can benefit from the individual good or service on its own

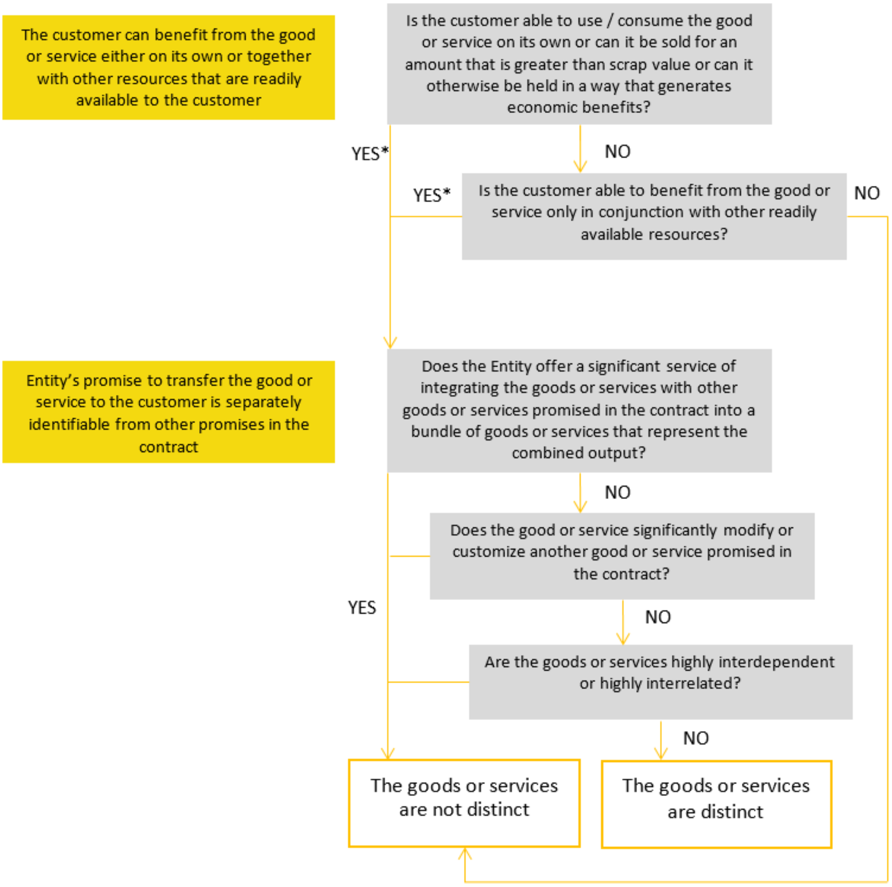
or

Customer can use good or service with other readily available resources

Step 2

Focus on whether the good or service is *distinct within the context of the contract.* Indicators include:

- Entity does not provide a significant service of integrating the good or service into a combined item (inputs to produce a combined output)
- The good or service does not significantly modify or customize other promised goods or services
- The good or service is not highly interdependent, or highly interrelated with, other promised goods or services



* When the goods and services are capable of being distinct it should be analysed whether the goods and services are distinct within the context of the contract.

Step 2: Identify performance obligations
Case

- Entity enters into a contract to manufacture and install customized equipment and provide maintenance services for a five-year period.
- Installation services include the integration of multiple pieces of equipment at the customer's facility in order for the equipment to operate as a single unit. Equipment cannot operate without installation.
- Entity sells equipment and installation services together, and does not sell installation separately.
- Other vendors can provide the installation services. The maintenance services are sold separately.

Identify the performance obligations based on the decision tree provided

Step 2: Identify performance obligations
Case

	Step 1: Capable of being distinct	Step 2: Distinct within the context of the contract
Equipment	Good cannot be used without installation, but customer can obtain installation from another source. Good is distinct. Move to Step 2.	Equipment and installation are highly interrelated. Significant customisation is required during installation. Good isn't distinct on its own because it must be combined with installation.
Installation	Installation can be provided by multiple vendors, so service is distinct. Move to Step 2.	See discussion above. Equipment and installation are not distinct from one another.
Maintenance	Services have a distinct function because they are sold separately. Move to Step 2.	Services are not highly interrelated. No integration, modification or customisation required. Services are distinct.

- In this example, there would be two performance obligations: (1) the equipment and installation because they are not individually distinct; (2) maintenance services because they are distinct services in the contract.

Step 2: Identify performance obligations
Case 2

- An entity enters into a contract with a customer to provide an item of equipment as well as to provide installation services.
- The equipment is functional without any customisation or modification.
- Installation will not significantly modify or customise the equipment.
- The installation required is capable of being performed by other service providers.

Identify the
performance
obligations based on
the decision tree
provided

Step 2: Identify performance obligations
Case 2

	Step 1	Step 2
	Capable of being distinct	Distinct within the context of the contract
Equipment	Customer can benefit from the equipment on its own, by using it or reselling it for an amount greater than scrap value, or together with installation services available from alternative providers. Good is distinct. Move to Step 2.	Installation services will not significantly customise or significantly modify the equipment. No significant integration service, and combining equipment and service would not transform them into a different, combined output. Good is distinct.
Installation	Customer can benefit from the installation services together with a resource (the equipment) that it has already obtained from the entity. Service is distinct. Move to Step 2.	See discussion above. Equipment and installation are distinct from one another.

- In this example, there would be two performance obligations: (1) the equipment and 2) installation because they are distinct in the contract.

Step 2: Identify performance obligations
Principal versus agent consideration

- Determining whether an entity acts as a principal or an agent in a specific arrangement affects the amount of revenue recognised (gross versus net recognition).
- Appropriately identifying the entity's performance obligation is fundamental to the principal or agent determination.

PRINCIPAL

Provides goods or services itself

An entity is a principal if it controls a specified good or service before that good or service is transferred to a customer

AGENT

Arranges for the goods or services to be provided by another party

Step 2: Identify performance obligations
Principal versus agent consideration

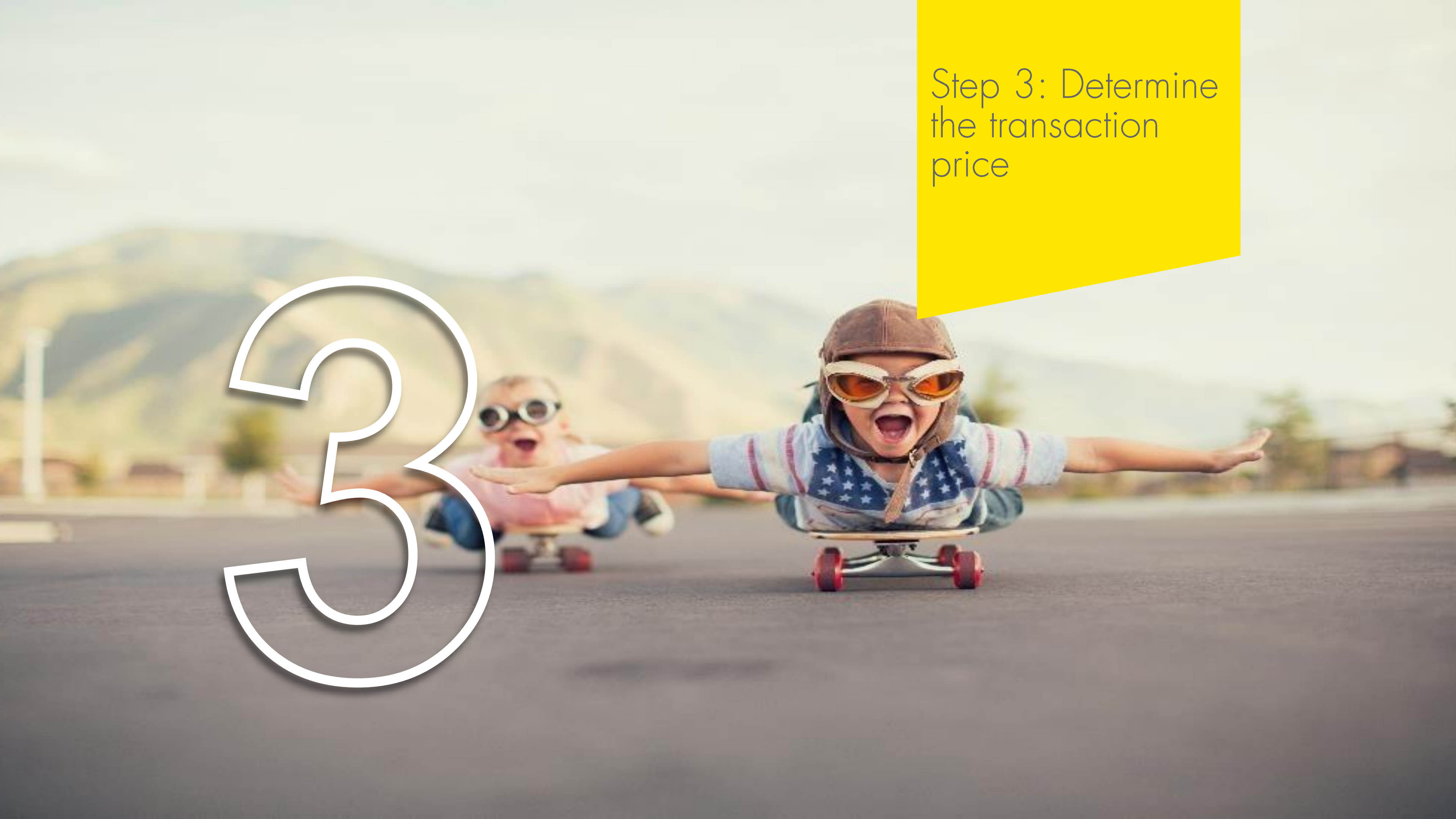
- Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal) include, but are not limited to, the following:

Entity is primarily responsible for fulfilling the promise to provide the specified good or service

Entity has inventory risk before the specified good or service has been transferred to a customer

Entity has discretion in establishing the price for the specified good or service

Step 3: Determine the transaction price



Step 3: Determine the transaction price
Overview

- Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties
- When determining the transaction, an entity shall consider the effects of the following:

- Variable consideration
- Significant financing component
- Non-cash consideration
- Consideration payable to a customer

Step 3: Determine the transaction price
Variable consideration

- Transaction price may vary because of variable consideration
- Definition of "variable consideration" is broad
- Identifying variable consideration is an important step in the new model because the constraint has to be considered for each type of variable consideration

Common types and events that cause consideration to be variable		
Bonuses	Incentive payments	Penalties
Refunds	Market-based fees	Discounts
Returns	Money-back guarantees	Price concessions
Volume rebates	Service level agreements	Liquidating damages

Step 3: Determine the transaction price
Variable consideration

- Variable consideration is estimated using the approach that better predicts the amount to which the company is entitled based on its facts and circumstances (i.e., not a "free choice")
- The approach should be applied consistently throughout the contract and for similar types of contracts

EXPECTED VALUE

Sum of the probability-weighted amounts in a range of possible outcomes

Most predictive when the transaction has a large number of possible outcomes

Can be based on a limited number of discrete outcomes and probabilities

MOST LIKELY AMOUNT

The single most likely amount in a range of possible outcomes

May be appropriate when the transaction will produce only two outcomes

Step 3: Determine the transaction price
Example

- The entity enters into a contract to construct a building for a customer for CU25 million
- The entity will also receive a bonus or pay a penalty of CU25,000 for each day that project is completed before or after 30 June 2018, respectively
- The entity uses the expected value approach with the following possible outcomes:

Possible outcomes	Probability	Calculated amount
Ten days early - CU250,000	50%	CU125,000
On schedule - CU0	25%	CU0
Five days late – (CU125,000)	25%	(CU31,250)
Probability-weighted estimate		CU93,750

The entity would include CU93,750 in the transaction price, assuming that the amount is not limited by the constraint

Step 3: Determine the transaction price
Example

- Assume the same facts from Example before. The entity will also receive a bonus of CU200,000 if the building achieves a green building certification level specified in the contract
- The entity uses the most likely amount approach to determine whether the bonus should be included in the transaction price because there are only two possible outcomes
- Based on its history of completing projects that achieve the certification specified in the contract, the entity determines that the bonus should be included in the transaction price
- At contract inception, the total transaction price is:

Base contract price	CU25,000,000
Completion bonus	CU93,750
Green certification bonus	CU200,000
Transaction price	CU25,293,750

Step 3: Determine the transaction price
Constraint on variable consideration

Constraining amounts of variable consideration

An entity should include an amount of variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved

IFRS constraint threshold	Highly probable
Significant	"Significant" is relative to cumulative revenue recognised

An entity should update its estimate of the transaction price that includes variable consideration at each reporting date

Step 3: Determine the transaction price
Significant financing component

Time value of money

- An entity adjusts the transaction price for the effects of the time value of money if the timing of the payments provides either party with a significant benefit of financing
- Evaluation not required if the entity expects the period between transfer of performance obligations and receipt of payment is one year or less

- If the financing component is not significant to the individual contract, entity is not required to adjust the transaction price

When assessing significance, entity would consider:

- The difference between promised consideration and the cash selling price

Combined effect of:

- **Expected time** between transfer of the promised goods and services and payment from customer
- Prevailing **interest rates** in the relevant market
  - Entity would use an interest rate that reflects the borrower's credit risk and expected term of the financing (rate determined at contract inception)

- Effect of financing would be reflected separately from revenue

Step 4: Allocate the transaction price

Step 4: Allocate the transaction price
Overview

- Transaction price is allocated to each separate performance obligation in "an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer"
- Transaction price is generally allocated based on relative stand-alone selling prices
- Standard provides two possible exceptions relating to the allocation of variable consideration and discounts, if certain criteria are met

Exceptions	If certain criteria are met, the new model provides two potential exceptions, relating to:
	Variable consideration
%	Discounts

Step 4: Allocate the transaction price

Case: Determine stand-alone selling price

- Entity A enters into an agreement to sell hardware, professional services and maintenance services for CU200,000
- Entity A determines that each of the promised goods or services represents a separate performance obligation
  - Because Entity A frequently sells professional services and maintenance on a stand-alone basis, it uses those transactions to determine stand-alone selling prices of CU25,000 and CU15,000, respectively
  - Entity A rarely sells the hardware on a stand-alone basis, so it estimates the stand-alone selling price at CU185,000 based on the hardware's underlying cost, Entity A's targeted margin and the amount of margin Entity A believes the market will bear (i.e., the expected cost plus a margin approach)

How would you allocate transaction prices for each performance obligations?

Step 4: Allocate the transaction price
Case: Determine stand-alone selling price

Performance obligation	Estimated stand-alone selling price	% of relative selling price	Allocated discount	Allocation of transaction price
Hardware	CU 185,000	82.2	CU (20,600)	CU 164,400
Professional services	25,000	11.1	(2,800)	22,200
Maintenance services	15,000	6.7	(1,600)	13,400
Total	CU 225,000	100.0	CU (25,000)	CU 200,000

Step 4: Allocate the transaction price
Case2: Determine stand-alone selling price

- Assume the same facts as Case 1, except the arrangement also includes software for a total fee of CU250,000
  - Entity A determines the software deliverable is also a separate performance obligation
  - Entity A never sells the software on a stand-alone basis
  - Entity A has bundled the software into a number of different arrangements, with the pricing for that element ranging from CU15,000 to CU125,000

How would you allocate transaction prices for each performance obligations?

Step 4: Allocate the transaction price

Case2: Determine stand-alone selling price

Arrangement consideration	CU250,000
Less estimated stand-alone selling prices:	
Hardware	(185,000)
Professional services	(25,000)
Maintenance services	(15,000)
Stand-alone selling price of software	CU25,000

Step 5: Recognise revenue

Step 5: Recognise revenue
Overview

Transfer

- Revenue is recognised upon satisfaction of a performance obligation by transferring the promised good or service to a customer. A good or service is considered to be transferred when (or as) the customer obtains control.

Performance obligations

- Performance obligations are either satisfied <u>over time</u> or <u>at a point in time</u>
  - To help make this determination, the standard includes criteria for determining when control transfers over time
  - If a performance obligation does not meet any of those criteria, control transfers at a point in time

Apply consistent method for similar performance obligations in similar circumstances

Step 5: Recognise revenue
Performance obligations satisfied over time

Control of goods and services is transferred over time
if one of the following three criteria is met:

- The entity creates or enhances an asset that the customer controls as it is created or enhanced
- The entity's performance does not create an asset with alternative use and the entity has a right to payment for performance completed to date
- The customer is receiving and consuming the benefits of the entity's performance as the entity performs

Another entity would not have to re-perform work completed to date

If none of the criteria are met, control transfers at a point in time

Step 5: Recognise revenue
Case

- The entity enters into a contract with a customer to build a specialised equipment
- The entity builds similar equipment for various customers, but the design and construction of each equipment differ substantially, on the basis of each customer's needs and the type of technology that is incorporated into the equipment.
- If the customer terminates the contract for reasons other than the entity's failure to perform as promised, the contract requires the customer to compensate the entity for its costs incurred plus a 15 per cent margin
- The 15 per cent margin approximates the profit margin that the entity earns from similar contracts.

Is the performance obligation satisfied over time?

Step 5: Recognise revenue
Case

- The entity assesses that the asset has no alternative use to the entity based on the following:
- The customer-specific design of the equipment limits the entity's practical ability to readily direct the equipment to another customer
- Although the contract does not preclude the entity from directing the completed equipment to another customer, the entity would incur significant costs to rework the design and function to direct that asset to another customer
- According to the contract, the entity has also an enforceable right to payment for its performance completed to date for its costs plus a reasonable margin.
- The criteria "The entity's performance does not create an asset with alternative use and the entity has a right to payment for performance completed to date." is met

Consequently, the entity recognises revenue over time by measuring the progress towards complete satisfaction of the performance obligation

Step 5: Recognise revenue
Performance obligation satisfied over time

- Revenue is recognised over time by measuring progress toward completion
    - The objective is to most faithfully depict an entity's performance
    - Apply a single method of measuring progress for each performance obligation satisfied over time

Output methods

Input methods

Apply consistent method for similar performance obligations in similar circumstances

- If unable to reasonably estimate progress, revenue should not be recognised until progress can be estimated
- However, if an entity expects to recover the costs, the entity should recognise revenue up to costs incurred

Step 5: Recognise revenue
Control transferred at a point in time

The following are indicators of when control is transferred.
(None of the indicators are individually determinative, and none are more important than others. Note that other factors could be relevant.)

- The entity has a present right to payment for the asset
- The customer has legal title to the asset
- The customer has physical possession of the asset
- The customer has the risks and rewards of ownership of the asset
- The customer has accepted the asset

Presentation and disclosure

Presentation and disclosure

Contract asset

- If an entity has performed an obligation by transferring goods or services to the customer and the customer has not yet paid for these goods or services, the enity should present a "contract asset" in its balance sheet (excluding any amount which is presented as a receivable). In general, amounts are presented as a receivable only when the customer has been invoiced.

Contract liability

- "Contract liability" should be presented in the balance sheet if payment is made before the entity transfers the goods or services to the customer.

IFRS 13 FAIR VALUE MEASUREMENT

IFRS 13 Learning Objectives

1. Definition of fair value
2. Measurement of fair value
3. Fair value disclosures

Definition of fair value

"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"

Fair value is a market-based measurement, not an entity-specific measurement. It means that an entity:
- *shall look at how the market participants would look at the asset or liability under measurement*
- *shall not take own approach (e.g. use) into account.*

Measurement of fair value

- When determining fair value, an entity shall use valuation techniques:
  - Appropriate in the circumstances
  - For which sufficient data are available to measure fair value
  - Maximizing the use of relevant observable inputs
  - Minimizing the use of unobservable inputs.

- Valuation techniques used to measure fair value shall be applied consistently.
  - However, an entity can change the valuation technique or its application, if the change results in equally or more representative of fair value in the circumstances.
  - An entity accounts for the change in valuation technique in line with IAS 8 as for a change in accounting estimate.

Measurement of fair value
3 valuation approaches

Market approach	• uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities, or a group of assets and liabilities, such as a business (e.g. quoted prices of listed shares)
Cost approach	• reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)
Income approach	• converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Measurement of fair value
Valuation techniques

- Market approach
  - Market multiples (EBITDA, revenue…)
- Cost approach
  - For non-financial assets
  - Current replacement costs
- Income approach
  - PV techniques

Measurement of fair value
Fair value hiararchy

- IFRS 13 introduces a fair value hierarchy that categorizes inputs to valuation techniques into 3 levels. The highest priority is given to Level 1 inputs and the lowest priority to Level 3 inputs.

- An entity must maximize the use of Level 1 inputs and minimize the use of Level 3 inputs.

Measurement of fair value
Fair value hiararchy

1

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- An entity shall not make adjustments to quoted prices, only under specific circumstances, for example when a quoted price does not represent the fair value (ie when significant event takes place between the measurement date and market closing date).

2

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Examples of such inputs include quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rate.

3

- An entity shall use Level 3 inputs to measure fair value only when relevant observable inputs are not available. Such inputs use the best information available about the assumptions that market participants would make when pricing the asset or liability.

Measurement of fair value

Fair value hiararchy

- Level 1
  - Quoted price for shars traded on stock exchange
- Level 2
  - Quoted price for similar in active markets
  - Other observable inputs
- Level 3
  - Financial forecasts
  - Historical volatility

Measurement of fair value
Fair value disclosures

IFRS 13 requires extensive disclosure of sufficient information to asses:

- Valuation techniques and inputs used to develop fair value measurement;
- The effect of measurements on profit or loss or other comprehensive income for fair value measurements using significant Level 3 inputs.

Forest assets

EURm	2018	2017
Carrying value, at 1 January	1,600	1,734
Additions	5	3
Disposals	–32	–97
Wood harvested	–101	–117
Net change in fair value	451	137
Translation differences	22	–59
Carrying value, at 31 December	1,945	1,600

Accounting policies

The group divides all its forest assets for accounting purposes into growing forests, which are recognised as forest assets at fair value less costs to sell, and land, which is stated at cost. Any changes in the fair value of the growing forests are recognised in the operating profit in the income statement. The fair value is calculated on the basis of discounted future expected cash flows as there is a lack of a liquid market. The fair value of forest assets is a level 3 measure in terms of the fair value measurement hierarchy.

Key estimates and judgements

Fair valuation

The valuation process of forest assets is complex and requires management estimates and judgment on assumptions that have a significant impact on the valuation of the group's forest assets.

Main factors used in the fair valuation of forest assets are estimates for growth and wood harvested, stumpage prices and discount rates. Stumpage price forecasts are based on the current prices adjusted by the management's estimates for the full remaining productive lives of the trees, up to 100 years for forests in Finland and in the US and up to 10 years for plantations in Uruguay. The cash flows are adjusted by selling costs and risks related to the future growth. Felling revenues and maintenance costs are estimated on the basis of actual costs and prices, taking into account the group's projection of future price and costs development. In addition, calculations take into account environmental restrictions.

NEXT TIME 3.5

IAS 19 Employee benefits
IAS 12 Taxes