

# ***IFRS Update***

25 May 2022

This webinar will commence shortly .....

# ***Introduction***



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# *Today's presenters*

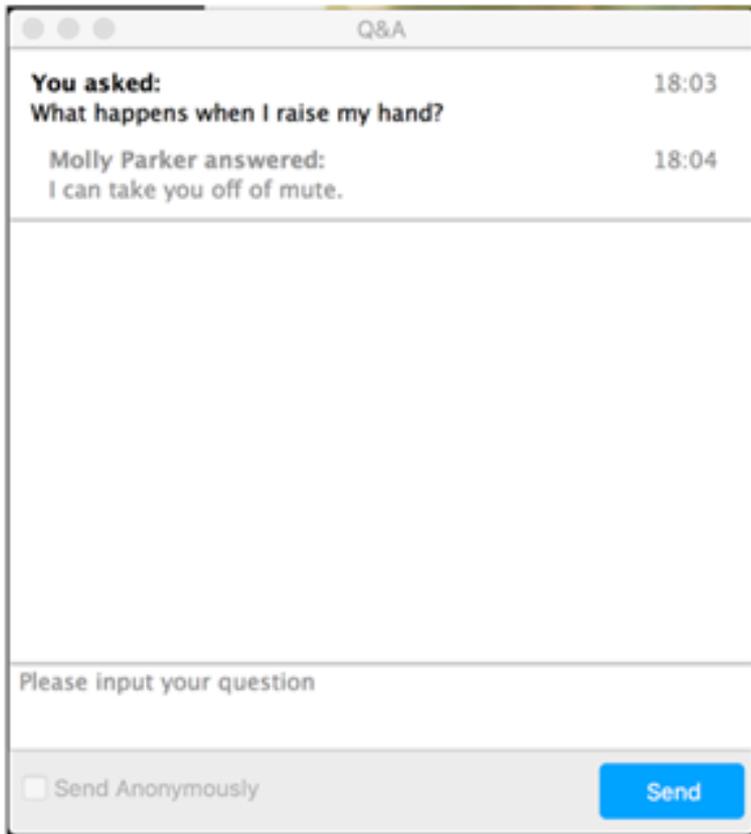


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# Ask a question and access resources



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IFRS amendments effective in 2022

IFRS IC Agenda Decisions

Ukraine crisis

FRC's Thematic reviews



# ***IFRS amendments effective in 2022***

# ***IFRS Amendments***

## Annual improvements (2018-2020)

- Including clarification of fees included in the '10% test' (IFRS 9)

IAS 37: Onerous contracts – cost of fulfilling a contract

IAS 16: Proceeds before intended use

IFRS 3: Reference to the conceptual framework

# ***Annual improvements to IFRS (2018-2020)***

## **Reminder: accounting for modification of liabilities**

- Separate rules for liabilities
- Accounting for substantial and non-substantial modifications is very different
- Perform a quantitative assessment (the 10% test) and a qualitative assessment
- The amendment clarifies the fees to be included in the 10% test

# ***Fees used in the 10% test***

## **Previously**

- Divergent practice

## **Now**

- Only fees paid or received between the borrower and the lender\*

\* Including fees paid or received by either the borrower or lender on the other's behalf

# ***IAS 37: Costs of fulfilling a contract***

**Key message: amendments may increase onerous contract provisions for some companies**

- A contract is onerous when:
  - The **unavoidable costs** outweigh the **economic benefits**
- The unavoidable costs = the lower of:
  - The costs to fulfil the contract; and
  - The costs of terminating it
- The amendment clarifies which costs to include in the costs to fulfil a contract

# ***Costs to fulfil a contract***

## **Previously**

- Divergent practice

## **Now**

- Incremental costs (eg, direct labour and materials)
- An allocation of other direct costs (eg, direct depreciation)

# ***On the horizon (effective 1 January 2023)***

IFRS 17 Insurance Contracts

IAS 1: classification of liabilities as current or non-current

IAS 8: definition of accounting estimates

IAS 1: disclosure initiative – accounting policies

IAS 12: deferred tax assets and liabilities arising from a single transaction



# ***IFRS Interpretations Committee Agenda Decisions***

# **IFRS IC** **Agenda Decisions** *issued since June 2021*



Other issued agenda decisions since June 2021 were on the following topics:

Non-refundable Value Added Tax on Lease Payments;  
Economic Benefits from Use of a Windfarm;  
TLTRO III Transactions; and  
Preparation when an Entity is No Longer a Going Concern.

# ***Costs necessary to sell inventories***

## Background and content of the IFRS IC request

### **Background:**

Inventories are measured at the lower of cost and net realisable value (IAS 2.9).

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Request to IFRS IC:**

Include the "necessary costs of sale".

- all necessary costs for the sale or
- merely incremental costs of sale?



# ***Costs for the disposal of inventories***

## Consequences of the IFRS IC decision

### IFRS IC



- IAS 2 does not regulate which specific costs are necessary for the sale
- IAS 2 does not impose a limit on costs that are merely incremental, this could exclude potentially necessary costs for a particular sale
- No recognition at higher amount than is likely to be realised on sale (objective IAS 2.28)
- Consideration of (company) specific circumstances including the nature of inventories



**No** statements in the agenda decision regarding:

- Concept of incremental costs
- Need for a full cost approach
- Which specific costs are to be included in detail



**Company-specific interpretation of which costs are to be included in detail.  
(if applicable, disclosures on significant discretionary decisions in accordance with IAS 1.122).**



## ***Quick fire Quiz!***

A retailer runs a bespoke direct marketing campaign to help sell a Spring/Summer clothing line.

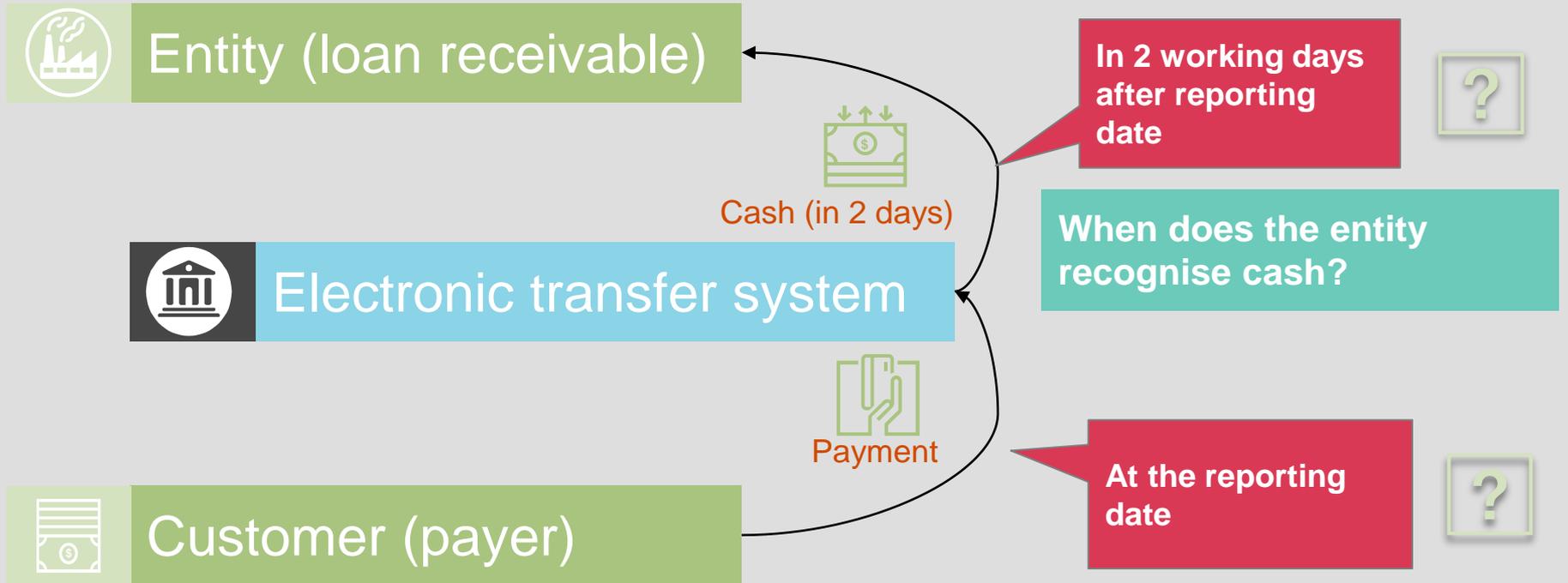
Question: Would this be included in the costs necessary to sell?

- A. Yes, it would be included as its incremental.
- B. Yes, it would be included even though it is not incremental.
- C. No, it would not be included.
- D. It depends.



***IFRS IC***  
***Tentative Agenda Decision***  
***- Cash received via***  
***electronic transfer***

# What is the issue?



# IFRS IC Tentative Agenda Decision - Cash received via electronic transfer

Applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity:

- derecognises the receivable on the date on which its contractual rights to the cash flows from the receivable expire; and
- recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date.

**Additional implications that should be considered:**

Situations in which the entity sells its goods or services to customers who pay via electronic payment systems - eg. by credit or debit cards.



Situations where a creditor is paid via an electronic payment system (settlement of liabilities)



If the debtor (or creditor) is not derecognised by the entity before the payment process is complete, this would result in bank reconciliations being redundant because the book and bank balance would be equal.





# *Ukraine crisis*

## ACCOUNTING IMPACTS

# ***Accounting impacts of the Ukraine conflict***

## **Key areas**

- Carrying value of assets
- Going concern
- Restructuring provisions
- Interim financial statements

# Carrying value of assets

## Assets held at fair value

- Fair value should reflect market conditions at the measurement date

## Impairment of non-current assets

- Impairment indicators need to be assessed at each reporting date
- The value-in-use should reflect the information available at the reporting date

## Expected credit losses

- Should incorporate forward looking information
- Use reasonable and supportable information available at the reporting date

Disclosures about the key assumptions and sensitivities or range of outcomes may need to be enhanced.

# ***Going concern***

## **Assessment period**

- Period covering at least 12 months from the date of approval

## **Information included**

- All available information up to the date of approval
- Including a severe but plausible scenario

## **Disclosures**

- Material uncertainties
- Key judgements
- Description of severe but plausible scenario

# ***Restructuring provisions***

## **Normal rules apply**

A restructuring provision is only recognised when:

- There is a detailed formal plan; and
- The company has raised a valid expectation, with those impacted, that the plan will be implemented

The provision should only include the direct costs of the restructuring

Disclose timing of outflows and uncertainties

# ***Interim financial statements***

**There are no recognition and measurement exemptions for interim financial reporting (except tax)**

- The fair value of assets measured at fair value are determined at the reporting date
- Assessment of impairment triggers required at the reporting date
- ECLs are measured at the reporting date
- Going concern assessment is the same as that required for annual financial statements
- Enhanced disclosure expectations



# ***FRC's Thematic reviews***

# Thematic reviews

## IAS 37



- Qualitative disclosures - clear, concise and specific
- Quantitative disclosures - when is the outflow expected?
- How are provisions being grouped into classes?
- It should be practicable to give an idea of magnitude in almost all cases.
- Significant judgements - how is management determining the “best estimate”?
- Are IAS 1 disclosures needed for material discounting or other sensitivities?

## APMs



- Should define APM's in a clear and readable way and give meaningful labels. Reconcile APM's to most directly reconcilable GAAP line item explaining material reconciling items
- The use of APM's should be explained so users understand relevance and reliability.
- APM's – Do not display with more prominence, emphasis or authority than GAAP measures.
- APM's should be defined consistently over time and any changes justified.
- Even handed treatment of gains and losses.

## Viability and Going Concern



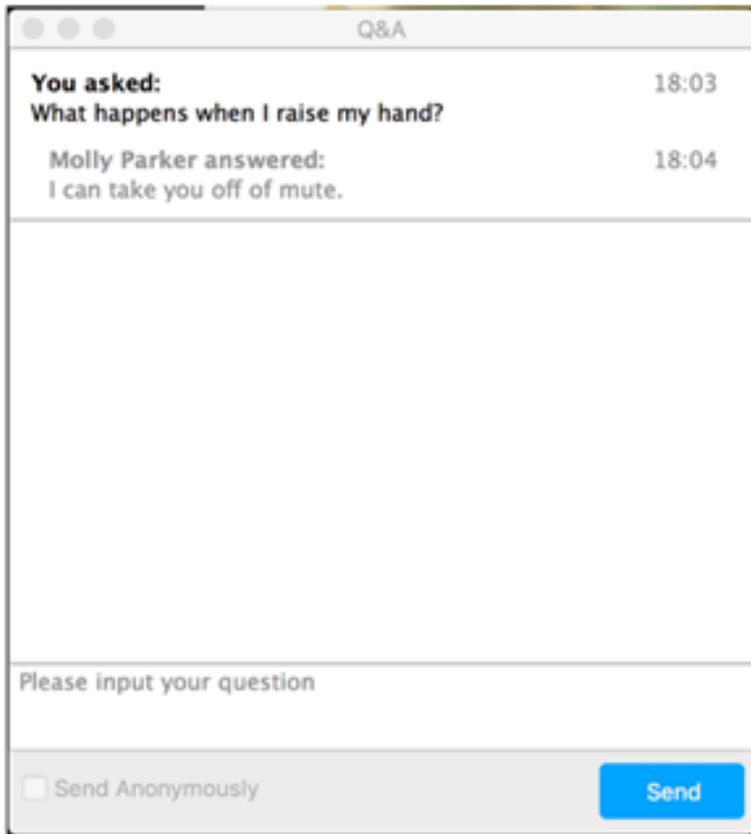
- Encouraging Company specific disclosure which is still clear and concise and avoids unnecessary clutter
- Observed some Going concern disclosures lacking sufficient qualitative and quantitative detail in respect of the inputs and assumptions used in the scenarios prepared
- Companies should clearly disclose how they are resilient to principal risks and how the impact of such risks could be mitigated if they were to crystallize

## Discount rates



- Assumptions used for discount rates and cash flows should be internally consistent.
- Encouraging companies to consider whether specialist third party advice may be required.
- Ensure risks are not counted twice. In many cases, it will be easier to risk adjust cash flows.
- Use a real risk-free rate as the starting point for constructing a discount rate, if cash flows are not adjusted for inflation
- Use a pre-tax discount rate and cash flows for VIU calculations; or where companies apply post-tax discount rates to post-tax cash flows, to assess whether this will provide an answer that is materially similar to one that uses a pre-tax basis.
- Provide high quality disclosures when judgement has been exercised or discount rates are a source of significant estimation uncertainty.

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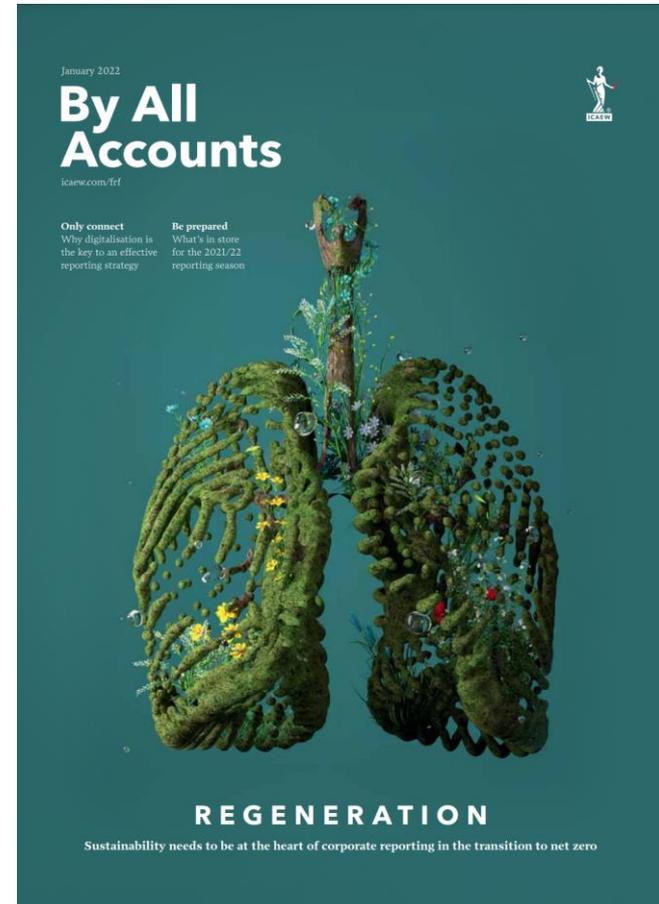
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- IFRS factsheets
  - [icaew.com/ifrsfactsheets](https://www.icaew.com/ifrsfactsheets)
  - 2022 IFRS Accounts (to be published)
  - 2021 IFRS Accounts
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# Questions



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# *Thank you for attending*



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