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PKF

ACCOUNTING UPDATE (2017-01)

Standards Issued and Effective Dates

Introduction

The following is a summary of new standards and pronouncements that are in issue and effective in the 2017 sets of financial statements of entities or thereafter. Effective dates below refer to annual periods beginning on or after the stated date in each case. Preparers should take note of these amendments during the preparation of their financial statements or when planning forthcoming data capturing requirements.

Narrow Scope Amendments Effective on or after 1 January 2017

	Standard	Change
1	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	*Annual Improvements 2012-2014 Cycle: Scope of Non-current assets held for sale:* Amendment clarifying that a change in the manner of disposal of a non-current asset or disposal group for sale or distribution is considered to be a continuation of the original plan of disposal, and accordingly, the date of classification as held for sale does not change. The application of this change is *prospective*.
2	IFRS 7 *Financial Instruments: Disclosures*	*Annual Improvements 2012-2014 Cycle: Service Contracts:* Amendments clarifying the circumstances in which an entity will have continuing involvement in a transferred asset as a result of servicing contracts. IFRS 7 requires disclosure for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The application of this change is *retrospective.* *Annual Improvements 2012-2014 Cycle: Offsetting:* Amendment clarifying the applicability of previous amendments to IFRS 7 issued in December 2011 with regards to offsetting financial assets and financial liabilities in relation to interim financial statements prepared under IAS 34 *Interim Financial Reporting*. The application of this change is *retrospective.*
3	IFRS 10 *Consolidated Financial Statements*	*Investment Entities: Applying the Consolidation Exception:* Narrow-scope amendments to IFRS 10, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates* introduce clarifications to the requirements when accounting for investment entities. An investment entity shall not consolidate its subsidiaries or apply IFRS 3 *Business Combinations* when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at FV through profit or loss in accordance with IFRS 9 F*inancial Instruments*. However, if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities, it shall consolidate that subsidiary in accordance with this IFRS and apply the requirements of IFRS 3 *Business Combinations* to the acquisition of any such subsidiary. Where an investment entity measures its subsidiaries at FV, it should provide the IFRS 12 *Disclosure of Interests in Other Entities* disclosures related to investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards. The application of this change is *retrospective*,

	Standard	Change
4	IFRS 11 *Joint Arrangements*	*Joint Operations: Measurement of a Joint Operation*: Narrow scope amendment stating that where an entity acquires an interest in a joint operation that meets the definition of a business, the acquirer should apply IFRS 3 *Business Combinations*. The amendment applies to both the initial investment and additional interests acquired in a joint operation. IFRS 3 *Business Combinations* applies except for where it conflicts with the provisions of IFRS 11. Further, like in IFRS 11 *Joint Operations*, IFRS 3 *Business Combinations* requires that the investor only recognises its percentage ownership in its accounts. The application of the change is *prospective*.
5	IFRS 12 *Disclosure of Interests in Other Entities*	*Investment Entities: Applying the Consolidation Exception:* Narrow scope amendments to the scope of the standard to clarify that the requirements in IFRS 12 apply to interests in entities within the scope of IFRS 5 *Non-current assets held for sale* – i.e. interests that are classified (or included in a disposal group that is classified) as held for sale, held for distribution to owners in their capacity as owners, or discontinued operations. The application of the change is *retrospective*.
6	IFRS 14 *Regulatory Deferral Accounts*	*Annual Improvements 2014-2016 Cycle: Rate Regulated amounts:* IFRS 14 permits first-time adopters to continue to recognise amounts related to its rate regulated activities in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The application of the change is *retrospective*.
7	IAS 1 *Presentation of Financial Statements*	*Disclosure Initiative: Clarifying the concept of materiality and deletion of short term exemptions for first-time adopters*: Narrow scope amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures. The application of this change is *prospective*.
8	IAS 7 *Statement of Cash Flows*	*Disclosure Initiative*: *Improving disclosures relating to changes in financing liabilities*. Narrow scope amendments require the following changes in liabilities arising from financing activities to be disclosed (to the extent necessary): • changes from financing cash flows; • changes arising from obtaining or losing control of subsidiaries or other businesses; • the effect of changes in foreign exchange rates; • changes in FV; and • other changes. The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". The new disclosure requirements also relate to changes in financial assets if they meet the definition above.

	Standard	Change
		A reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is one way to meet the new disclosure requirements. The application of this change is *prospective*.
9	IAS 12 Income Taxes	*Income Taxes: Recognition of deferred tax assets for unrealised losses:* Narrow scope amendments clarify the following: • Unrealised losses on debt instruments measured at FV and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The application of the change is *retrospective*.
10	IAS 16 *Property, Plant and Equipment*	*Property, plant and equipment: Basis of depreciation:* Narrow scope amendment establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets. The application of the change is *prospective.* *Amendments bringing bearer plants into the scope of IAS 16:* now includes bearer plant assets. but it does not apply to the produce on bearer plants. A bearer plant is defined as a living plant that • is used in the production or supply of agricultural produce; • is expected to bear produce for more than one period; and • has a remote likelihood of being sold as agricultural produce (except as scrap) Bearer plant assets are treated as self-constructed assets. Costs are capitalised until the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. IAS 16 *Property, plant and equipment* permits the use of either the Cost or Revaluation model. The application of the change is *retrospective*.
11	IAS 19 *Employee Benefits*	*Annual Improvements 2012-2014 Cycle: Discount rate:* Clarification of the requirements to determine the discount rate in a regional market sharing the same currency (for example, the Eurozone). The application of the change is *retrospective.*
12	IAS 27 *Consolidated and Separate Financial Statements*	*Separate Financial Statements*: *Use of Equity method:* Narrow scope amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The application of the change is *retrospective.*
13	IAS 28 *Investments in Associates*	*Annual Improvements 2014-2016 Cycle: Measuring an associate or joint venture at fair value:* If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the FV measurement

	Standard	Change
		applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interest in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which a. the investment entity associate or joint venture is initially recognised; b. the associate or joint venture becomes an investment entity; and c. the investment entity associate or joint venture first becomes a parent. The application of the change is *retrospective.*
14	IAS 34 *Interim Financial Reporting*	*Annual Improvements 2012-2014 Cycle: Clarification of the meaning of disclosure of information 'elsewhere in the interim financial report'.* Disclosures that are in addition to the significant events and transactions disclosures must be given in either: • interim financial statements; or • incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) provided that these reports are available to users at the same time and on the same terms. The application of the change is *retrospective.*
15	IAS 38 *Intangible Assets*	*Intangible assets: Basis of amortisation:* Narrow scope amendment establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets. The application of the change is *prospective.*
16	IAS 41 *Agriculture:*	*Agriculture: Scope exclusion of bearer plant*: Narrow scope amendments includes bearer plants in the scope of IAS 16 *Property, plant and equipment*, rather than IAS 41 allowing such assets to be accounted for after initial recognition in accordance with IAS 16 *Property, plant and equipment*. The application of the change is *retrospective.*

Interpretations Issued and Effective on or after 1 January 2017

	Interpretation	Change
1	None	N/A

Standards Issued and Effective on or after 1 January 2018

	Standard	Change
1	IFRS 1 *First time adoption of International Financial Reporting Standards*	*Financial Instruments: Disclosures:* Deletion of short-term exemptions for first-time adopters relating to limited exemption from comparative IFRS 7 *Financial Instruments: Disclosures*, transfer of financial asset disclosures, presentation of comparative information for sensitivity of the defined benefit obligation, and transitional effects of a first-time adopter that is parent which is an investment entity as defined in IFRS 10 *Consolidated Financial Statements* at the date of transition. The exemption is no longer available.
2	IFRS 2 *Share based payments*	*Amendments to clarify the classification and measurement of share-based payment transactions*: An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9 *Financial Instruments*. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018.

	Standard	Change
3	IFRS 9 *Financial Instruments* (IFRS 9 (2014) supersedes any previous versions of IFRS 9, but earlier versions of IFRS 9 remain available for application if the relevant date of application is before 1 February 2015)	A finalised version of IFRS 9 *Financial Instruments* has been issued which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The completed standard comprises guidance on Classification and Measurement, Impairment, Hedge Accounting and Derecognition: a) IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A ***new business model*** was introduced which does allow certain financial assets to be categorised as "FV through other comprehensive income" in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39 *Financial Instruments: Recognition and Measurement*. However, some changes were made to the FV option for financial liabilities to address the issue of own credit risk. b) The new approach introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets. c) IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity. In addition, enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39. Note: IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before 1 February 2015.
4	IFRS 15 *Revenue from Contracts from Customers*	New standard that requires entities to recognise revenue to depict 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. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers. 1. Determine whether you have a contract - do we have a deal 2. Identify the performance obligations - who is doing what (discrete bundles) 3. Determine the transaction price - what do you expect to be owed for the service or goods you have delivered 4. Allocate the transaction price to each of the performance obligations 5. Recognise revenue when the performance obligations are satisfied The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The new standard supersedes: a) IAS 11 *Construction Contracts*; b) IAS 18 *Revenue*; c) IFRIC 13 *Customer Loyalty Programmes*; d) IFRIC 15 *Agreements for the Construction of Real Estate*; e) IFRIC 18 *Transfers of Assets from Customers*; and f) SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. The clarifications to the new Revenue standard, which was issued in 2014, do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to: • identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;

	Standard	Change
		• determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and • determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for an entity when it first applies the new standard.
5	IAS 28 *Investments in Associates and Joint Ventures*	*Initial recognition of venture capital organisations or other qualifying entities:* Amendments clarify that the election to measure at FV through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition
6	IAS 40 *Investment Property*	*Transfers of property to, or from, investment property*: An entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

Standards Issued and Effective on or after 1 January 2019

	Standard	Change
1	IFRS 16 *Leases*	New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. Therefore, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 *Statement of Cash Flows*. IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. IFRS 16 supersedes the following Standards and Interpretations: a) IAS 17 *Leases*; b) IFRIC 4 *Determining whether an Arrangement contains a Lease*; c) SIC-15 *Operating Leases – Incentives*; and d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

In conclusion

Preparers should note that IAS 8 *Accounting Policies, Changes in Accounting Estimates and* Errors requires an entity to disclose:

- the effects of adoption of a standard, amendment or pronouncement that is mandatory for the first time in the financial year presented. The disclosure required includes the title of the standard, nature of the change in accounting policy, the impact of the change and transitional provisions including any retrospective impacts.
- where an entity has not applied the requirements of a new standard, amendment or pronouncement that has been issued but is not effective/mandatory, the standard/pronouncement in question, the known or reliably measured impact of adoption of the change, the date that the change is effective and the date that the entity expects to adopt the change. The standard requires an entity that has not fully evaluated the impact to make a statement to that effect.

Glossary

Acronym	Definition
FV	Fair value
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
SIC	Standard Interpretations Committee