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ACCOUNTING UPDATE 2018

Standards Issued and Effective Dates

Introduction

The following is a summary of new standards and pronouncements that are in issue and effective in the 2018 sets of financial statements of entities or thereafter. Preparers should take note of these amendments during the preparation of their annual financial statements or when planning forthcoming data capturing requirements.

Narrow Scope Amendments Effective on or after 1 January 2018

	Standard	Change
1	IFRS 1 *First time adoption of International Financial Reporting Standards*	*Annual Improvements 2014 - 2016 Cycle:* Deletion of short-term exemptions for first-time adopters relating to limited exemption from comparative IFRS 7 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 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. A collection of three distinct narrow-scope amendments dealing with classification and measurement of share-based payments. The amendments address: a) the effects of vesting conditions on the measurement of a cash-settled share-based payment; b) the accounting requirements for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled; and c) classification of share-based payment transactions with net settlement features.
3	IFRS 4 *Insurance Contracts*	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) addresses concerns arising from the different effective dates of IFRS 9 and IFRS 17 Insurance Contracts. The amendments introduce two optional approaches: a) a temporary exemption - entities whose activities are predominantly connected with insurance may choose to continue to apply IAS 39 instead of IFRS 9. This optional temporary exemption from IFRS 9 is available until 2021. b) an overlay approach - all entities that issue insurance contracts and apply IFRS 9 may choose to reclassify in other comprehensive income, the difference in the amounts recognised in profit or loss for eligible financial assets between applying IFRS 9 and applying IAS 39.
4	IAS 28 *Investments in Associates and Joint Ventures*	*Annual Improvements 2014 - 2016 Cycle:* Clarification that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.
5	IAS 40 *Investment Property*	Transfers of Investment Property: Clarification of the requirements on transfers to, or from, investment property.

	Standard	Change
		An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include: a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property; b) commencement of development with a view to sale, for a transfer from investment property to inventories; c) end of owner-occupation, for a transfer from owner-occupied property to investment property; and d) (d) commencement inception of an operating lease to another party, for a transfer from inventories to investment property

Interpretations Issued and Effective on or after 1 January 2018

	Interpretation	Change
1	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income (or part of it) when derecognising a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

Standards Issued and Effective on or after 1 January 2018

	Standard	Change
1	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 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 "fair value through other comprehensive income" in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value 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. An entity that applies IFRS 9 can nevertheless elect (an accounting policy choice) to continue applying the hedge accounting requirements in IAS 39 for all hedge accounting relationships. 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.

	Standard	Change
2	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 amendments to the 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; • 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.

Practice Statement Issued and Effective on or after 14 September 2017

	Statement name	Detail
1	*IFRS Practice Statement 2* Making Materiality Judgements	The statement provides entities with guidance on how to make materiality judgements when preparing their financial statements, so that those financial statements focus on the information that is useful to investors. The IFRS Practice Statement gathers all the materiality requirements in IFRS Standards and adds practical guidance and examples that entities may find helpful in deciding whether information is material. IFRS Practice Statement 2 is not mandatory and neither changes requirements nor introduces new ones.

Narrow Scope Amendments Effective on or after 1 January 2019

	Standard	Change
1	IFRS 3 *Business Combinations*	*Annual Improvements 2015 - 2017 Cycle:* Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.
2	IFRS 9 *Financial Instruments*	*Prepayment Features with Negative Compensation* - Applying the amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income.
3	IFRS 11 *Joint Arrangements*	*Annual Improvements 2015 - 2017 Cycle*: Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
4	IAS 12 *Income Taxes*	*Annual Improvements 2015 - 2017 Cycle*: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises.
5	IAS 23 *Borrowing Costs*	*Annual Improvements 2015 - 2017 Cycle:* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
6	IAS 28 *Investments in Associates and Joint Ventures*	*Long-term interest in Associates and Joint Ventures:* Clarifies that entities account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9 before accounting for any losses or impairment losses applying IAS 28.

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 asset 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 also 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. 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

	Standard	Change
		d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Interpretations Issued and Effective on or after 1 January 2019

	Interpretation	Change
1	IFRIC 23 *Uncertainty over Income Tax Treatments*	The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes.

Standards Issued and Effective on or after 1 January 2021

	Standard	Change
1	IFRS 17 *Insurance Contracts*	IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. This standard replaces IFRS 4 – Insurance contracts. The key principles in IFRS 17 are that an entity: a) identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain, future event (the insured event) adversely affects the policyholder; b) separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts; c) divides the contracts into groups it will recognise and measure; d) recognises and measures groups of insurance contracts at a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all the available information about the fulfilment cash flows in a way that is consistent with observable market information plus (if this value is a liability) or minus (if this value is an asset) an amount representing the unearned profit in the group of contracts (the contractual service margin); e) recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk, if a group of contracts is or becomes loss-making, an entity recognises the loss immediately; f) presents separately insurance revenue, insurance service expenses and insurance finance income or expenses. g) discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. To do this, an entity discloses qualitative and quantitative information about: • the amounts recognised in its financial statements from insurance contracts; • the significant judgements, and changes in those judgements, made when applying the Standard; and • the nature and extent of the risks from contracts within the scope of this Standard.

Narrow Scope Amendments deferred until further notice

	Standard	Change
1	IFRS 10 *Consolidated Financial Statements*	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28):* Narrow scope amendment address an acknowledged inconsistency between the

	Standard	Change
		requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
2	IAS 28 *Investments in Associates and Joint Ventures*	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

In conclusion

Preparers should note that IAS 8 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.