

Annual Accounting Update

Presenter: Caryn Maitland

IFRS and IFRS for SMEs

Ask Questions

To ask questions and interact during the webinar please use the chat sidebar to the right of the video / presentation on the screen.

Feel free to ask your questions during the webinar in the chat, these will be address in the formal Q & A at the end of the presentation.

Presenter

Caryn Maitland

Caryn is a qualified CA(SA and RA, who has lectured extensively at UKZN (and other institutes) where she lectured Advanced Financial Accounting up until 2011 as well as co-ordinating the module on the Pietermaritzburg campus and was appointed Section Head of Financial Accounting and Deputy Head of the School of Accounting (managing the Pietermaritzburg campus) prior to leaving UKZN.

She has conducted independent workshops and seminars for professional accountants since 2006 on various topics and has consulted on a number of technical issues. Since January 2011, she has focused on her own business as technical freelance consultant and trainer to those working within the accounting profession. Caryn is a technical advisor to the SAICA Eastern Region Midlands District, Northern District and Southern District Associations, as well as the Small Practice Interest Group in Durban – specialising in financial reporting (IFRS, IFRS for SME's and general accounting), assurance, legislation and ethics. Caryn has a passion for Corporate Governance, which together with her Companies Act specialism and Financial Management for Non Financial Management lecturing background, has served her well in consulting and advising various Boards of Directors in recent years.

Caryn is also a platform presenter for various institutes as well as many small to medium accounting practices across the country and into Southern Africa. Maitland was appointed as a visiting Associate Professor to the University of Limpopo tasked with mentoring their Financial Accounting staff (Aug 2011 to Dec 2013).

Maitland's passion is IFRS and IFRS for SME's and was delighted at the opportunity granted in 2013 to serve on the APC subcommittee constituted to investigate the need for Micro GAAP and the role of IFRS for SME's for small and medium sized practitioners. Caryn, also serves on the Joint Accountants, Auditors and Attorneys Committee of SAICA, and is part of the School Governing Body project initiated by SAICA in KwaZulu-Natal, and has been appointed as an alternative member to the APC in June 2020

Caryn was elected as the first woman Chairperson for the Midlands District Association for SAICA in 2018 and also serves on the Eastern Region SMP Committee as well as the Local Subvention Committee for SAICA. In 2019 Caryn was appointed to the SAICA Eastern Region Council. As someone who is committed to environmental affairs, Caryn serves as a non-executive director for the Institute of Natural Resources, a Non Profit Company focusing on research. Since 2018 Caryn has worked extensively with commerce and industry, assisting analysts, directors and other users of financials to interpret, prepare, analyse and forecast based on the results of financial statements.



Course Outline

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IASB Work Plan

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Project	Next Milestone	Expected Date	Comments due	Related Standards
Availability of Refund (IFRIC 14)	Decide Project Direction	-	-	IFRIC 14 IAS19
Business Combinations under Common Control	DP Feedback (FB)	Dec 2021	-	IFRS 3
Cash received via EFT as settlement for Financial Asset	Tentative Agenda Dec FB	Q1 2022	25/11/21	IFRS 9
Classification of Debt with Covenants as Current or Non-Current	ED	Nov 2021	-	IAS 1
Demand Deposits with Restrictions on Use (IAS 7)	Tentative Agenda Dec FB	Q1 2022	25/11/21	IAS 7
Disclosure Initiative – Subs without Public Accountability	ED Feedback	H1 2022	31/01/22	
Disclosure Initiative – Targeted Standards – level Review of Disclosures	ED Feedback	Jan 2022	12/01/22	IAS1, IAS19 IFRS 3

Comprehensive Review

Project	Next Milestone	Expected Date	Comments due	Related Standards
Dynamic Risk Disclosure	Decide Project Direction	H1 2022	-	IFRIC 14 IAS19
Economic Benefits from Use of Windfarm (IFRS 16)	Tentative Agenda Dec FB	Nov 2021	-	IFRS 3
Equity Method	Decide Project Direction	-	-	IFRS 9
Extractive Activities	Decide Project Direction	H1 2022	-	IAS 1
Financial Instruments with Characteristics of Equity	ED	-	-	Conceptual FW, IAS32 IFRS9
Goodwill and Impairment	Decide Project Direction	-	-	IFRS 3 IAS36
IFRS Taxonomy Update 2021 – General Improvements and Common Practice	Proposed IFRS Taxonomy Update	Dec 2021	-	-

Comprehensive Review

Project	Next Milestone	Expected Date	Comments due	Related Standards
IFRS Taxonomy Update 2021 – Technology Update	Proposed IFRS Taxonomy Update	Dec 2021	-	-
IFRS Taxonomy Update 2021 – General Improvements and Common Practice	Proposed IFRS Taxonomy Update	Dec 2021	-	-
IFRS Taxonomy Update 2021 – Amendments to IAS 1, IAS 8 and IFRS Practice Statement 2 (material judgements)	IFRS Taxonomy Update	Dec 2021	-	IAS 1 and 8 PS2
IFRS Taxonomy Update 2021 – Amendments to IFRS 17 and IFRS 9 (Comparative Info amendments to IFRS 17)	Final Amendments	Dec 2021	-	IFRS 17 and IFRS 9
Initial Application of IFRS 17 and IFRS 9 (Comparative Info)	Proposed IFRS Taxonomy Update	Dec 2021	-	IFRS 17 and IFRS 9
Lack of Exchangeability (Amendments IAS 21)	ED Feedback	Jan 2022	-	IAS 21
Lease liability – Sale and Leaseback	Decide Project Direction	Dec 2021	-	IFRS 16

Comprehensive Review

Project	Next Milestone	Expected Date	Comments due	Related Standards
Management Commentary	ED Feedback	Q1 2022	23/11/21	Prac Stmt 1
Pension Benefits that depend on Asset Returns	Project Summary	-	-	IAS 19
Post Implementation Review of IFRS 10, IFRS 11, and IFRS 12	Feedback Statement	-	-	IFRS 10 to IFRS 12
Post Implementation Review of IFRS 9 Classification and Measurement	Request for Info Feedback	H1 2022	-	IFRS 9
Primary Financial Statements	IFRS Standard	-	-	IAS1 IAS 7
Provisions – Targeted Improvements	Decide Project Direction	-	-	Conceptual FW, IAS37 IFRIC 21
Rate Regulated Activities (regulatory deferral accounts)	ED Feedback	Nov 2021	-	IFRS 14

Comprehensive Review

Project	Next Milestone	Expected Date	Comments due	Related Standards
2 nd Comprehensive review of IFRS for SMEs	ED	-	-	IFRS for SMEs
Supplier Finance Arrangements	ED	Nov 2021	-	IAS 7, IFRS 7 (CFS)
Third agenda Consultation	Request for Info Feedback	Nov 2021	-	-
TLTRO III Transactions (Govt Grants)	Tentative Agenda Dec Feedback	Nov 2021	-	IAS 20 IFRS 9

IFRS for SMEs

Who can use IFRS for SME's?

Future of IFRS for SMEs

Comprehensive Review

- . Request for information 2020 (Comment deadline 27 Oct 2020)
Alignment to IFRS is the big question
 - . Faithful representation
 - . Simplicity
 - . Relevance to SMEs
- . Simplicity per the Basis of Conclusions to IFRS for SME's states
 - . omitting some topics;
 - . when an IFRS Standard permits options, permitting only the simplest option;
 - . simplifying recognition and measurement requirements;
 - . reducing disclosures; and
 - . simplifying language.

Feedback IASB - Feb 2021

Alignment Approach and Considerations

– Questions?

- a) whether the IFRS for SMEs Standard should continue to be based on full IFRS Standards (the alignment approach);
- b) what extent of alignment is considered most useful:
 - (i) alignment of principles only;
 - (ii) alignment of principles and important definitions; or
 - (iii) alignment of principles, important definitions and the precise wording of requirements; and
- c) whether the principles of relevance to SMEs, simplicity and faithful representation provide a framework to assist the Board in determining whether and how the IFRS for SMEs Standard should be aligned with full IFRS Standards.

Alignment Approach and Considerations – **The answers**

Most SMEIG members agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board:

- (a) to continue to base the IFRS for SMEs Standard on full IFRS Standards;
- (b) to consider the costs and benefits of aligning the IFRS for SMEs Standard with a new IFRS Standard, amendment to an IFRS Standard and IFRIC Interpretation (new requirement);
- (c) to develop any proposed amendments to the IFRS for SMEs Standard to reflect principles and important definitions in a new requirement; and
- (d) to determine whether and how the IFRS for SMEs Standard should be aligned with full IFRS Standards using the principles of relevance to SMEs, simplicity and faithful representation and including cost–benefit considerations when applying those principles.

Alignment Approach and Considerations – **The answers**

- Some SMEIG members said:
 - a) the Board should consider defining ‘alignment’:
 - (i) to clarify that the review is not intended to change the original objective of the IFRS for SMEs Standard; and
 - (ii) to avoid referring to the IFRS for SMEs Standard as a condensed version of full IFRS Standards; and
 - b) migration to full IFRS Standards is not a good justification for aligning the IFRS for SMEs Standard with IFRS Standards because, in SMEIG members’ experience, only a small number of entities apply the IFRS for SMEs Standard before migrating to full IFRS Standards.

Alignment Approach and Considerations

– Additional considerations...

- Some SMEIG members said:
 - a) the Board should consider defining ‘alignment’:
 - (i) to clarify that the review is not intended to change the original objective of the IFRS for SMEs Standard; and
 - (ii) to avoid referring to the IFRS for SMEs Standard as a condensed version of full IFRS Standards; and
 - b) migration to full IFRS Standards is not a good justification for aligning the IFRS for SMEs Standard with IFRS Standards because, in SMEIG members’ experience, only a small number of entities apply the IFRS for SMEs Standard before migrating to full IFRS Standards.
- One SMEIG member expressed the view that the IFRS for SMEs Standard should be an independent Standard, that is, it should be updated only for known application questions. This member: (a) did not agree with the Board’s approach to the review; and
- (b) suggested the Board obtain additional feedback from preparers about the need to continue to base the IFRS for SMEs Standard on full IFRS Standards.

When to consider alignment

The aim of this session was for SMEIG members to discuss how soon after issuing a new requirement the Board should consider making related changes to the IFRS for SMEs Standard.

SMEIG members generally agreed that a policy determining when to consider a new requirement for alignment would provide certainty and stability.

However, some SMEIG members suggested that:

- (a) the Board adopt a flexible approach. For example, if the time-sensitivity of a new requirement justifies swift consideration for alignment with the IFRS for SMEs Standard, the Board should be able to propose timely amendments to the IFRS for SMEs Standard.
- (b) the Board state that future reviews of the IFRS for SMEs Standard will not reconsider an IFRS Standard, amendment to an IFRS Standard or an IFRIC Interpretation that was considered as part of the second comprehensive review unless a specific matter is brought to its attention.

Alignment with 2018 Conceptual Framework (and undue cost or effort principle)

SMEIG members generally agreed

- to align Section 2 Concepts and Pervasive Principles of the IFRS for SMEs Standard with the 2018 Conceptual Framework and
- retain the concept of undue cost or effort.

However, some SMEIG members said:

- (a) there could be inconsistencies between the 2018 Conceptual Framework and other sections of the IFRS for SMEs Standard;
- (b) more clarity is required on how the concept of undue cost or effort is applied, for example, an understanding of how entities use the exemption and the frequency of the usage; and
- (c) the Board could provide simpler options in specific cases, instead of requiring entities to assess undue cost or effort, or application guidance and examples in the IFRS for SMEs Standard on the use of the concept of undue cost or effort.

Alignment with 2018 Conceptual Framework (and undue cost or effort principle)

One SMEIG member said that:

- (a) the status of the 2018 Conceptual Framework is different from that of Section 2 of the IFRS for SMEs Standard, which has the authority of a Standard whereas the 2018 Conceptual Framework does not. The member suggested moving Section 2 to a separate document.
- (b) the Board could consider deferring alignment with the 2018 Conceptual Framework to the next comprehensive review.

Alignment with IFRS 13 Fair Value Measurement

The aim of this section:

- (a) the IFRS for SMEs Standard should be aligned with the definition of fair value in IFRS 13;
- (b) the guidance on fair value measurement in the IFRS for SMEs Standard should be aligned with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13;
- (c) the IFRS for SMEs Standard should include examples that illustrate how to apply the hierarchy; and
- (d) the guidance and related disclosure requirements should be moved to Section 2 of the IFRS for SMEs Standard.

Alignment with IFRS 13 Fair Value Measurement

- Some SMEIG members said it may not be appropriate to include the guidance and disclosure requirements relating to fair value with the concepts and principles in Section 2 of the IFRS for SMEs Standard. These members suggested that the requirements should be moved to a subsection of Section 2, or to another section.

Alignment with IFRS 3 Business Combination

The aim to discuss the alignment of Section 19 Business Combinations and Goodwill with IFRS 3 (2008), particularly whether:

- (a) Section 19 of the IFRS for SMEs Standard should include requirements for accounting for step acquisitions;
- (b) these requirements should be aligned with IFRS 3 (2008);
- (c) an entity should:
 - (i) recognise acquisition-related costs as an expense at the time of the acquisition;
 - (ii) recognise contingent consideration at fair value and subsequently account for it as a financial instrument with changes in fair value recognised in profit or loss, and whether an entity should be permitted to use the undue cost or effort exemption and provide the related disclosures if measuring contingent consideration at fair value would involve undue cost or effort; and
- (d) the IFRS for SMEs Standard should include the amended definition of a business issued in 2018.

Alignment with IFRS 3 Business Combination

SMEIG members provided mixed views on including in Section 19 of the IFRS for SMEs Standard the requirements for accounting for step acquisitions:

- a) some members expressed the view that the requirements should not be introduced into the Standard because step acquisitions are not common for SMEs; and
- b) other members expressed the view that the requirements should be introduced because requirements would be useful if SMEs entered into such transactions.

•One SMEIG member said the Board should conduct further outreach before proposing amendments to the IFRS for SMEs Standard to align Section 19 with IFRS 3 (2008).

Alignment with IFRS 10 Consolidated Financial Statements

The aim of this session was to discuss the alignment of Section 9 Consolidated and Separate Financial Statements of the IFRS for SMEs Standard with IFRS 10, particularly:

- (a) aligning the definition of control in Section 9 with IFRS 10;
- (b) retaining and updating paragraph 9.5 of the IFRS for SMEs Standard; and
- (c) not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss.

•SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to align the definition of control in Section 9 with IFRS 10 and retain and update paragraph 9.5 of the IFRS for SMEs Standard. 24.

Alignment with IFRS 10 Consolidated Financial Statements

Para 9.5 of IFRS for SME's: Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it has:

- (a) power over more than half of the voting rights by virtue of an agreement with other investors;
- (b) power to govern the financial and operating policies of the entity under a statute or an agreement;
- (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body

Alignment with IFRS 10 Consolidated Financial Statements

Regarding not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss, for which the feedback on the Request for Information was mixed,

- SMEIG members said:

- (a) some private equity entities that are not publicly accountable apply the IFRS for SMEs Standard. These entities would prefer the Board to introduce the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss.
- (b) many SMEs would not meet the definition of an investment entity and the accounting requirements for investment entities would therefore not be relevant.
- (c) not introducing the investment entity requirements would maintain the simplicity of the IFRS for SMEs Standard.

- A small number of SMEIG members said that the Board should conduct further outreach, including consideration of the feedback from the post-implementation review of IFRS 10, IFRS 11 and IFRS 12.

Alignment with IFRS 11 Joint Arrangements

The aim of this session was to discuss the alignment of Section 15 Investments in Joint Ventures of the IFRS for SMEs Standard with IFRS 11, particularly:

- (a) aligning the definition of joint control in Section 15 with IFRS 11;
- (b) retaining the categories of joint arrangements—jointly controlled operations, jointly controlled assets and jointly controlled entities; and
- (c) retaining the accounting requirements of Section 15, including the accounting policy election for jointly controlled entities in Section 15.

SMEIG members generally agreed with the staff's preliminary thoughts that the feedback provides evidence for the Board to:

- (a) align the definition of joint control with IFRS 11 and retain the accounting requirements of Section 15; and
- (b) retain the accounting policy election for jointly controlled entities.

Alignment with IFRS 9 Financial Instruments

The aim of this session was to discuss the alignment of Section 11 Basic Financial Instruments and Section 12 Other Financial Instrument Issues of the IFRS for SMEs Standard with IFRS 9, particularly:

- a) supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics;
- b) aligning Section 11 with the simplified expected credit loss approach to the impairment of financial assets in IFRS 9;
- c) removing, retaining or aligning with IFRS 9 the accounting requirements on hedge accounting in Section 12;
- d) changing the 'fall back' to IAS 39 in Section 11 for the recognition and measurement of financial instruments to a 'fall back' to IFRS 9; and
- e) adding the definition of a financial guarantee contract from IFRS 9 to the IFRS for SMEs Standard and aligning the requirements in the Standard for issued financial guarantee contracts with IFRS 9.

Alignment with IFRS 9 Financial Instruments – Classification and Measurement

SMEIG members generally agreed that the feedback provides evidence for the Board to supplement the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics.

SMEIG members said:

- (a) such a principle would provide a clear rationale for the classification of financial assets and would assist entities in the circumstance in which a financial asset does not match the characteristics in any of the examples in Section 11;
- (b) it is easier for preparers of financial statements to understand the principles of IFRS 9; and
- (c) introducing the contractual cash flow characteristics principle will be a significant help to users of financial statements in understanding the financial instruments in the statement of financial position.

Alignment with IFRS 9 Financial Instruments – Classification and Measurement

Other views expressed by a few SMEIG members included:

- (a) concerns from one SMEIG member about the complexity of introducing contractual cash flow characteristics because, in his view, this would result in greater use of fair value than Section 11 requires for some financial assets that SMEs generally hold.
- (b) a suggestion from another SMEIG member to introduce an option (that is, permit but not require) to use the fair value through profit or loss classification for basic financial instruments subject to a simplified business model test when this classification is more representative of the entity's business model. For example, if an entity holds a debt instrument for the purpose of trading that debt, it should be permitted to use the fair value through profit or loss classification.
- (c) another SMEIG member said the Board should wait until the postimplementation review of IFRS 9 is completed before considering alignment.

Alignment with IFRS 9 Financial Instruments – Impairment of financial assets

- SMEIG members generally agreed with the staff's preliminary thoughts that the Board should undertake additional work to understand the practical challenges entities face in implementing or applying the simplified expected credit loss approach to decide on whether to propose amendments to the IFRS for SMEs Standard to align with IFRS 9.
- One SMEIG member said the incurred loss model in the IFRS for SMEs Standard should be retained because the simplified expected credit loss approach would be difficult for SMEs to apply.
- Some SMEIG members suggested considering further simplifications of the simplified approach (for example, using the 'best estimate' to calculate the lifetime expected loss instead of using a probability of a 'range of possible outcomes' approach).

Alignment with IFRS 9 Financial Instruments – Hedging

- SMEIG members expressed no particular preference for any of the alternatives about hedge accounting requirements for SMEs
 - that is, removing, retaining or aligning with IFRS 9 the accounting requirements on hedge accounting in Section 12

Alignment with IFRS 9 Financial Instruments – Fall back to IAS 39

- SMEIG members generally agreed that the feedback provides evidence for the Board to change the fall back to IAS 39 in Section 11 of the IFRS for SMEs Standard for the recognition and measurement of financial instruments to a fall back to IFRS 9.
- One SMEIG member asked whether the Board would consider removing the ‘fall back’ given the reasons for which the fall back to IAS 39 was included in the Standard.

Alignment with IFRS 9 Financial Instruments – Financial Guarantee Contracts

- Most SMEIG members said the feedback provided evidence for the Board to introduce the definition of a financial guarantee contract from IFRS 9 to the IFRS for SMEs Standard.
- Some SMEIG members said entities should apply Section 21 Provisions and Contingencies of the IFRS for SMEs Standard to account for issued financial guarantee contracts because the requirements in Section 21 are simpler for SMEs.
- One SMEIG member suggested aligning the requirements in the IFRS for SMEs Standard for issued financial guarantee contracts with IFRS 9.

Alignment with IFRS 16 Leases

- The aim of this session was to discuss the alignment of Section 20 Leases of the IFRS for SMEs Standard with IFRS 16 Leases, in particular:
 - (a) simplifying the recognition and measurement requirements in respect of matters such as variable lease payments, determining the discount rate and the term of the lease;
 - (b) retaining the disclosure requirements of Section 20; and
 - (c) simplifying the language.

Alignment with IFRS 16 Leases

- Most SMEIG members agreed with the staff's preliminary thoughts that the Board should undertake additional work to understand the practical challenges entities faced or are facing in implementing or applying IFRS 16 before deciding whether to align the IFRS for SMEs Standard with IFRS 16.
- One SMEIG member suggested, as a relief for SMEs, requiring or permitting a later effective date for Section 20 if that section is aligned with IFRS 16.
- Two SMEIG members expressed concerns about simplifying the definition of 'lease term' to 'the non-cancellable period for which an entity is required to comply with the lease'. In their view, this simplification could lead to structuring opportunities in drafting lease contracts and would not result in faithful representation.

Alignment with IFRS 15 Revenue from Contracts with Customers

- The aim of this session was to discuss the best approach to aligning Section 23 Revenue of the IFRS for SMEs Standard with IFRS 15, while considering cost–benefit implications.
- In particular, SMEIG members discussed whether
 - Alternative 1 (proposing amendments to align the outcomes from applying Section 23 with the outcomes from applying IFRS 15) or
 - Alternative 2 (rewriting Section 23 to align it with IFRS 15)
- would be the better approach.

Alignment with IFRS 15 Revenue from Contracts with Customers

- Most SMEIG members supported Alternative 2 because:
 - (a) aligning Section 23 with a transfer of control model would result in better alignment with the outcomes from applying IFRS 15;
 - (b) Alternative 2 would address areas requiring additional guidance, such as considerations about principals and agents;
 - (c) the IFRS 15 framework for recognising revenue—that is, the five-step model—is a clear approach; and
 - (d) IFRS 15 addresses inconsistencies and weaknesses in the previous revenue Standards by specifying a comprehensive and robust framework for the recognition, measurement and disclosure of revenue

Feedback March 2021

The Board met on 24 March 2021 to discuss the project plan for the second phase of the Second Comprehensive Review of the *IFRS for SMEs* Standard. **The Board tentatively decided to:**

- move the project from its research programme to its standard-setting work plan.
- confirm that the scope of the review is as set out in the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*.
- work towards publishing an exposure draft, proposing amendments to the *IFRS for SMEs* Standard for new requirements that are in the scope of the Review.
- develop proposed amendments to the *IFRS for SMEs* Standard using the approach on which the Board consulted in the Request for Information. This approach treats alignment with IFRS Standards as the starting point, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place.

Twelve of 13 Board members agreed with these decisions.

Focus areas – Financial instruments, Leases and Revenue

2024

Key Considerations Regarding:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Welcome to single model accounting where the contract is KING

IFRS Standards

What is happening in IFRS?

Standards up for discussion

- IAS 1 - *Presentation of Financial Statements.*
- IAS 8 - *Accounting Policies, Changes in Accounting Estimates & Errors.*
- IAS12 - *Income taxes*
- IAS16 - *Property, Plant and Equipment*
- IAS37 - *Provisions, Contingent Liabilities and Contingent Assets*
- IFRS 3 - *Business Combinations*
- IFRS 17 – *Insurance Contracts*

IAS 1 Presentation of Financial Statements

- Effective Date 1 Jan 2023
- On 23 January 2020, the IASB issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)'
- providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.
- The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022, however, their effective date has been delayed to 1 January 2023.

IAS 8 Accounting Policies, Change in Estimates and Errors

- Effective Date 01 Jan 2023
- On 12 February 2021, the IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)'
- with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements.
- The amendments are effective for annual periods beginning on or after 1 January 2023.
- On 12 February 2021, the IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)'
- to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023.

IAS12 Income Taxes

- Effective Date 01 Jan 2023
- On 7 May 2021, the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)'
- that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.
- The amendments are effective for annual periods beginning on or after 1 January 2023.

IAS16 Property, Plant and Equipment

- Effective Date: 01 Jan 2022
- On 14 May 2020, the IASB issued 'Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)'
- regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.
- The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

IAS37 Provisions, Contingent Liabilities and Contingent Assets

- Effective Date: 01 Jan 2022
- On 14 May 2020, the IASB issued 'Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)'
- amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.
- The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

IFRS 3 Business Combination

- Effective Date: 01 Jan 2022
- On 14 May 2020, the IASB issued 'Reference to the Conceptual Framework (Amendments to IFRS 3)'
- with amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements.
- The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

IFRS 17 Insurance Contracts

- Effective Date 01 Jan 2023
- IFRS 17 'Insurance Contracts' was issued by the IASB on 18 May 2017 and is effective for periods beginning on or after 1 January 2023.
- On 25 June 2020, the IASB issued 'Amendments to IFRS 17' to address concerns and implementation challenges that were identified after IFRS 17 'Insurance Contracts' was published in 2017.
- The amendments are effective for annual periods beginning on or after 1 January 2023.

IFRS 17 Insurance Contracts

- Objective
- IFRS 17 *Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. [IFRS 17:1]

IFRS 17 Insurance Contracts

Scope : An entity shall apply IFRS 17 *Insurance Contracts* to: [IFRS 17:3]

- Insurance contracts, including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee.

Such issued contracts are in the scope of the standard, unless an entity chooses to apply to them IFRS 15 *Revenue from Contracts with Customers* and provided the following conditions are met: [IFRS 17:8]

- (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
- (b) the contract compensates the customer by providing a service, rather than by making cash payments to the customer; and
- (c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

IFRS 17 Insurance Contracts

Scope : An entity shall apply IFRS 17 *Insurance Contracts* to: [IFRS 17:3]

- Insurance contracts, including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee.

Such issued contracts are in the scope of the standard, unless an entity chooses to apply to them IFRS 15 *Revenue from Contracts with Customers* and provided the following conditions are met: [IFRS 17:8]

- (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
- (b) the contract compensates the customer by providing a service, rather than by making cash payments to the customer; and
- (c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

IFRIC

IFRIC issues

- IFRS Interpretations Committee Agenda decisions including
 - Configuration or Customisation Costs in a Cloud Computing Arrangement- IAS 38
 - Hedging Variability in Cash Flows due to Real Interest Rates- IFRS 9
 - Attributing Benefit to Periods of Service -IAS 19
 - Preparation of Financial Statements when an Entity is No Longer a Going Concern - IAS 10
 - Costs Necessary to Sell Inventories - IAS 2

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Configuration or Customisation Costs in a Cloud Computing Arrangement- IAS 38

- The

Hedging Variability in Cash Flows due to Real Interest Rates- IFRS 9

- The Committee therefore concluded that there is no exposure to variability in cash flows that is attributable to changes in the real interest rate in the proposed cash flow hedging relationship and, thus, the requirements in paragraph 6.3.7 and paragraph 6.5.2(b) of IFRS 9 are not met.
- Consequently, the real interest rate risk component in the proposed cash flow hedging relationship does not meet the requirements in IFRS 9 to be designated as an eligible hedged item as required by paragraph 6.4.1 of IFRS 9.
- The Committee concluded that the requirements in IFRS 9 provide an adequate basis for an entity to determine whether a hedge of the variability in cash flows arising from changes in the real interest rate, rather than the nominal interest rate, could be accounted for as a cash flow hedge.

Preparation of Financial Statements when an Entity is No Longer a Going Concern - IAS 10

- The Committee received a request about the accounting applied by an entity that is no longer a going concern (as described in paragraph 25 of IAS 1 *Presentation of Financial Statements*).
- The request asked (Question 1) whether such an entity can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and has not previously prepared financial statements for those
- **Response**
- Paragraph 25 of IAS 1 requires an entity to prepare financial statements on a going concern basis 'unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so'.
- Paragraph 14 of IAS 10 states that 'an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so'.
- Applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10, an entity that is no longer a going concern cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis.
- The Committee therefore concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis.

Preparation of Financial Statements when an Entity is No Longer a Going Concern - IAS 10

- **Request Question 2:**
- Should an entity restate its comparative information to reflect the basis of accounting used in preparing the current period's financial statements if it had previously issued financial statements for the comparative period on a going concern basis
- **Response**
- Based on its research, the Committee observed no diversity in the application of IFRS Standards with respect to Question II—entities do not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis. Therefore, the Committee has not [yet] obtained evidence that the matter has widespread effect.

Costs Necessary to Sell Inventories - IAS 2

- The Committee concluded that,
 - when determining the net realisable value of inventories,
 - an entity estimates the costs necessary to make the sale in the ordinary course of business.
 - An entity uses its judgement to determine which costs are necessary to make the sale
 - considering its specific facts and circumstances,
 - including the nature of the inventories.

Other interesting issues

Topical issues

- Educational material published by the IASB - **Effects of Climate Related Matters on Financial Statements**
- Dynamic Risk Reporting
- Sustainability Reporting
- Better communication in Financial Reporting initiative
- Updates made to the headline earnings circular - Circular 1/2021 – Headline Earnings
- FAQ on Biological assets
- **Social unrests and impact on financial reporting**

Effects of Climate Related issues on the Financials – IFRS Standards possibly affected

- Disclosure about sources of estimation uncertainty and judgements, as well as going concern (IAS 1 *Presentation of Financial Statements*)
- Inventory obsolescence and net realisable value (IAS 2 *Inventories*)
- Recognition of deferred tax assets due to reduced profitability (IAS 12 *Income Taxes*)
- Annual assessment of estimated useful lives and residual values (IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)
- Impairment of goodwill, intangibles and other non-current assets – effects of increased costs and reduced demand for products that emit greenhouse gases, regulatory changes relating to climate matters, disclosure about events that led to impairment write-downs, etc. (IAS 36 *Impairment of Assets*)

Effects of Climate Related issues on the Financials – IFRS Standards possibly affected

- Increases in provisions for onerous contracts, restructuring and rehabilitation (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)
- Increases in provisions for fines, penalties (IFRIC 21 *Levies*)
- Increases in expected credit losses due to climate events, e.g. bush fires, floods (IFRS 9 *Financial Instruments*)
- Classification of financial instruments by lenders if loan contractual cash flows are linked to achievement of climate-targets, i.e. whether contractual cash flows are solely payments for principal and interest (IFRS 9 *Financial Instruments*)
- Fair value of assets (IFRS 13 *Fair Value Measurement*)
- Increased frequency of insurance claims due to climate events, e.g. floods, bushfires (IFRS 17 *Insurance Contracts*).

Disaster Accounting – COVID and Civil Unrest

- What about the impact of loadshedding....

Understanding what happened

Attitude of management (Ethics)

Loss of documentation

Loss of trade

Loss of foreign investor confidence

Damage to KZN business confidence

Going concern – will businesses rebuild?

Understanding what happened

Challenges to access to finance as a province

Access to supply chain (food shortages e.g.)

- During and after

Insurance claims – was the business covered?

Staff issues

Looting and loss of inventory

Damage to infrastructure

Increased security costs

Cash flow risk (tax obligations etc)

Most urgent issue

Subsequent event disclosure and impact

Is the business a going concern

- Reporting concept in AFS
- Management and Auditor assessment
- Access to supply
- Uninsured risk

Loss of trade and negative confidence

- Impact on estimates and forecasts

Is there such a thing as...

An extraordinary item?

An abnormal item?

Nature, size and incidence

Separate disclosure

Gross Tax Net

Discontinued Operations and Loss on Discontinuance

	Not e	Continuing	Discontinui ng	Total
Revenue		XXXX	XXXX	XXXX
Expenses		(XX)	(XX)	(XX)
Loss on Discont.	6		(X)	(X)
Tax		(XX)	(XX)	(XX)
Profit		XXX	XXX	XXX

Impairment

Infrastructure – Property, plant and equipment

- Impair, claim from insurance, rebuild....
- Step 1 Impair asset on 12-15 July 2021
- Step 2 Receipt Insurance Proceeds
- Step 3 Reconstruct asset
- **CANNOT** Net these transactions off
- Timing is critical

Loss in Value

Fair values

- Investment properties

Abnormal inventory losses

- Price gouging
- Access to supply

Impact on Financials

Recoverability of debtors

- ECL

Finance providers increased risk assessment

- Fair values
- Effective interest

Provisions

Staff costs

- retrenchments

Narrations – Tell the story

Directors Report

Notes to AFS

Get ahead of the problem....

Going concern

Deferred Tax...

- Timing differences
- Trading losses
- Capital losses

Tax and Insurance

General principle (Burma Steamships)

- The tax treatment will follow the “hole” that is being filled by the insurance payout.

Overview

Type of payout	Income Tax	CGT	VAT
Loss of profit/business protection	Gross income	Nil value	Deemed output s8(8)
Buildings	Recoupment	Capital gain/para 65	Deemed output s8(8)
Moveable assets	Recoupment	Capital gain/para 65/para 66	Deemed output s8(8)
Trading stock	Recoupment	Generally nil value	Deemed output s8(8)

Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

If you would like to e-mail a question please use:

technicalquestions@accountingacademy.co.za

**Thank you for your
participation**