

Right of Use Assets

Presenters: Caryn Maitland CA(SA)

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Presenter

Caryn Maitland CA(SA)

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.



Robs email

Right-of-use – a new asset category accounted for in IFRS

Accountants have grown accustomed to the concept of assets, especially tangible assets such as property, plant and equipment, inventory, and investment property, all having the probability of future economic benefits flowing to the entity in common. That, and physical substance. IAS 38 Intangible Assets introduced to us assets “without physical substance”, called intangible assets, with several related categories and recognition requirements. The focus was now on convincing another party to “see” the same no-physical-substance-asset, that you so clearly see. Accountants adapted well to IAS 38 and life moved on peacefully. Along came another financial reporting standard, IAS 39 (now superseded by IFRS 9) dealing with everyone’s favourite topic: financial instruments! IFRS 9 Financial Instruments introduced yet another new asset category, called “financial” assets, into the mix, and many accountants, even today, are weary (teary?) of this asset category. Most of us still struggle with the difference between a financial and non-financial asset! Think of an investment in cryptocurrency that is currently regarded a non-financial intangible asset!

If you get upset easily, don’t read further. Leasing is a well-known, run-of-the-mill transaction type for most entities. IAS 17 Leases contained significant guidance on classifying leases between expensed operating leases and capitalised finance leases. When the time came to update (re-write?) IAS 17, the new financial reporting standard, IFRS 16 Leases, showcased yet another new asset prototype in the form of a “right-of-use”-asset. This change coincided with related updates in 2018 to the conceptual framework for financial reporting, a.k.a. the “DNA” of accounting, including updates to the definition of an asset. The new definition of an asset underlined the concept of a present economic resource, being a right with the potential of producing future economic benefits (also note – previously, the definition of an asset referred to expected future economic benefits, now it is potential of future economic benefits). It is against the background of this change, that we also see the development, in IFRS 16 Leases, whereby lessees, unless validly exempted, are required to capitalise all leases (a concept very similar to the requirement contained in the old IAS 17 in respect of “finance leases”). Yet, the lessee is not required to recognise the actual items of property, plant and equipment, or intangible assets leased on the statement of financial position, but instead a “right-of-use” asset, which is a separate category of assets that is to be reconciled and disclosed in the notes to the annual financial statements of a full IFRS-compliant entity.

COURSE OUTLINE

Course Objective

- Conceptual Framework 2018
- Intangible assets
- Examples
 - Leases
 - Cryptographic Assets
 - Contractual arrangements

Its all about rights....

- **Do not need to own an asset just have access to the resource**

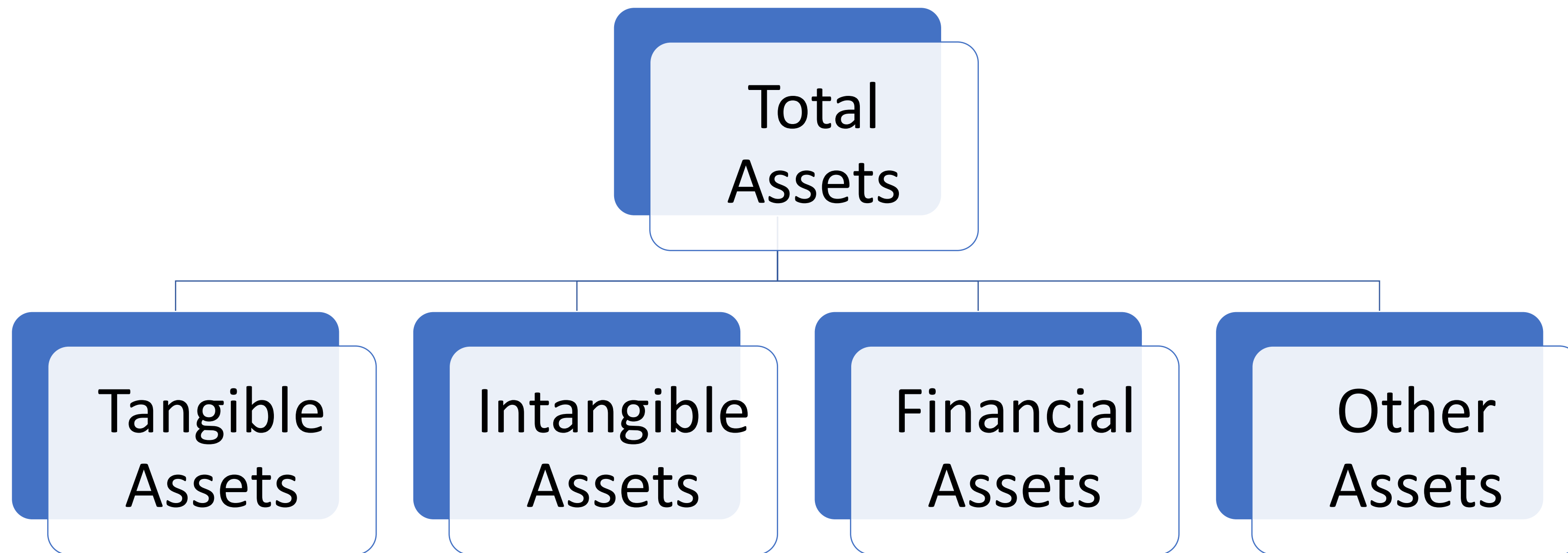
Conceptual Framework 2018

- Definition of asset as revised:
 - **Old definition.** An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
 - **New Definition:** A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the **potential to produce economic benefits**

Conceptual Framework 2018

- Definition of asset as revised:
- separate definition of an economic resource
 - to clarify that an asset is the economic resource, not the ultimate inflow of economic benefits
- deletion of 'expected flow'
 - it does not need to be certain, or even likely, that economic benefits will arise
- a low probability of economic benefits might affect recognition decisions and the measurement of the asset

Assets



Conceptual Framework 2018

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Intangible Assets IAS 38

An identifiable

- **Separable** or
- Arises from contractual or legal rights
- Purchased GW

Non monetary

Without physical form

Considerations regarding inherent GW

Separable Intangible Assets

An asset is separable when an **asset can be divided from the entity** and the specific future economic benefits attributable to the asset can be rented, sold, exchanged or distributed, without effecting future economic benefits that flow from other assets used in the same revenue earning activity

Initial Measurement

Cost

- Purchase price plus any directly attributable costs (location, condition and intention)
- Expenses incurred after location, condition and intention criteria met must be expensed

Measurable if separable and arises from contractual or legal rights

Fair value

- Active market
- Inactive – fair value

Subsequent Measurement

- Amortisation
- Revaluation
- IFRS vs IFRS for SMES

Examples

- Leases
- Cryptographic assets
- Other contractual arrangements

Leases (IFRS 16)

Lessee accounting

- Single accounting model
- Lessee required to recognise
 - a right of use asset – representing underlying leased asset
 - Leased liability – representing obligation to make lease payments
- Capitalise assets and liabilities for all leases that have a duration of more than 12 months unless the underlying asset is of a low value
- Right of use asset measured similarly to other non financial assets, and leased liability to that of a financial liability
 - Depreciation, interest, capital repayment, cash flow principles
 - Initially measured on a present value basis

Cryptographic assets

Cryptographic assets:

- No legal definition
- Cryptographic assets are used for a variety of purposes, including as a means of exchange, as a medium to provide access to blockchain-based goods or services, and as a way to raise funding for an entity developing activities in this area

Cryptocurrencies are a subset of cryptographic assets

Subsets of Assets

Asset	Purpose	Inherent Value
Cryptocurrency	Cryptocurrencies are digital tokens or coins based on blockchain technology, such as Bitcoin. They currently operate independently of a central bank and are intended to function as a medium of exchange.	None – derives its value based on supply and demand.
Asset Backed token	An asset-backed token is a digital token based on blockchain technology that signifies and derives its value from something that does not exist on the blockchain but instead is a representation of ownership of a physical asset (for example, natural resources such as gold or oil).	Derives its value based on the underlying asset.

Subsets of Assets

Asset	Purpose	Inherent Value
Utility Token	Utility tokens are digital tokens based on blockchain technology that provide users with access to a product or service, and they derive their value from that right. Utility tokens give holders no ownership in a company's platform or assets and, although they might be traded between holders, they are not primarily used as a medium of exchange.	Value is derived from the demand for the issuer's service or product
Security token	Security tokens are digital tokens based on blockchain technology that are similar in nature to traditional securities. They can provide an economic stake in a legal entity: sometimes a right to receive cash or another financial asset, which might be discretionary or mandatory; sometimes the ability to vote in company decisions and/or a residual interest in the entity	Value is derived from the success of the entity, since the holder of the token shares in future profits or receives cash or another financial asset.
*Hybrid transactions		

Other Contractual arrangements

**Thank you for your
participation**