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Membership, Development and Technology
Specialist

CHARTERED ACCOUNTANTS ACADEMY





ICAZ 2016 Winter School IFRS Update

Presented by Commissioner Anesu Daka CA (SA)(Z)



IFRS UPDATE

New Standards and Amendments

- IFRS Amendments
- New IFRSs:
 - ✓ IFRS 15- Revenue from Contracts with Customers
 - ✓ IFRS9 Financial Instruments
 - ✓ IFRS 16- Leases
- Exposure Drafts
- IASB Work Plan



IFRS Amendments



1. Accounting for Acquisition in Joint Operations

- Amendment to IFRS 11
- Allows application IFRS3 guidance in determining whether a joint operation is a BUSINESS
- Effective 1 January 2016



2. Clarification of Acceptable Methods of Depreciation and Amortisation

- Amendment to IAS 16 and IAS 38.
- Clarify that **revenue-based depreciation method is NOT appropriate**
- Further guidance in applying reducing balance method
- Effective 1 January 2016



Agriculture Bearer Plants

- Amendment to IAS16 and 41
- Bearer Plants now treated as PPE
- Produce still under IAS 41
- Effective 1 January 2016

Bearer plants

- Currently:
 - Biological plants (including bearer plants) – recognise under IAS 41
- Revised standards:
 - 'Bearer plants' – recognise under IAS 16 Property, Plant & Equipment



Equity Method in Separate Financial Statements

- Amendment to IAS 27
- Effective 1 January 2016



Statement of Cash Flows

- Amendment to IAS7
- Additional disclosures of cash and non-cash changes of financing liabilities
- Effective 1 January 2017



Recognition of Deferred Tax Asset for Unrealised Losses

- Amendment to IAS 12
- Unrealised losses from a financial asset held at FV where the tax base is cost are a deductible temporary differences.
- *Effective 1 January 2017*



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NEW IFRSs



REVENUE FROM CONTRACTS WITH CUSTOMERS

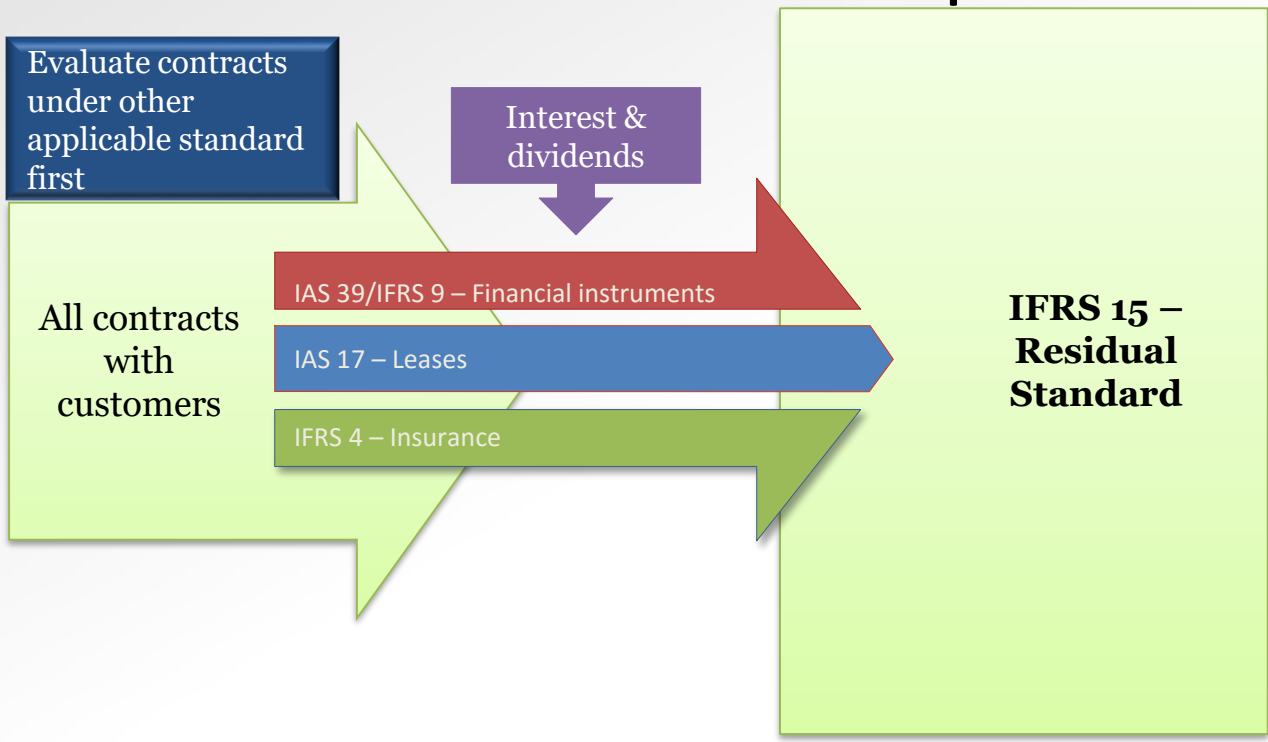
IFRS 15



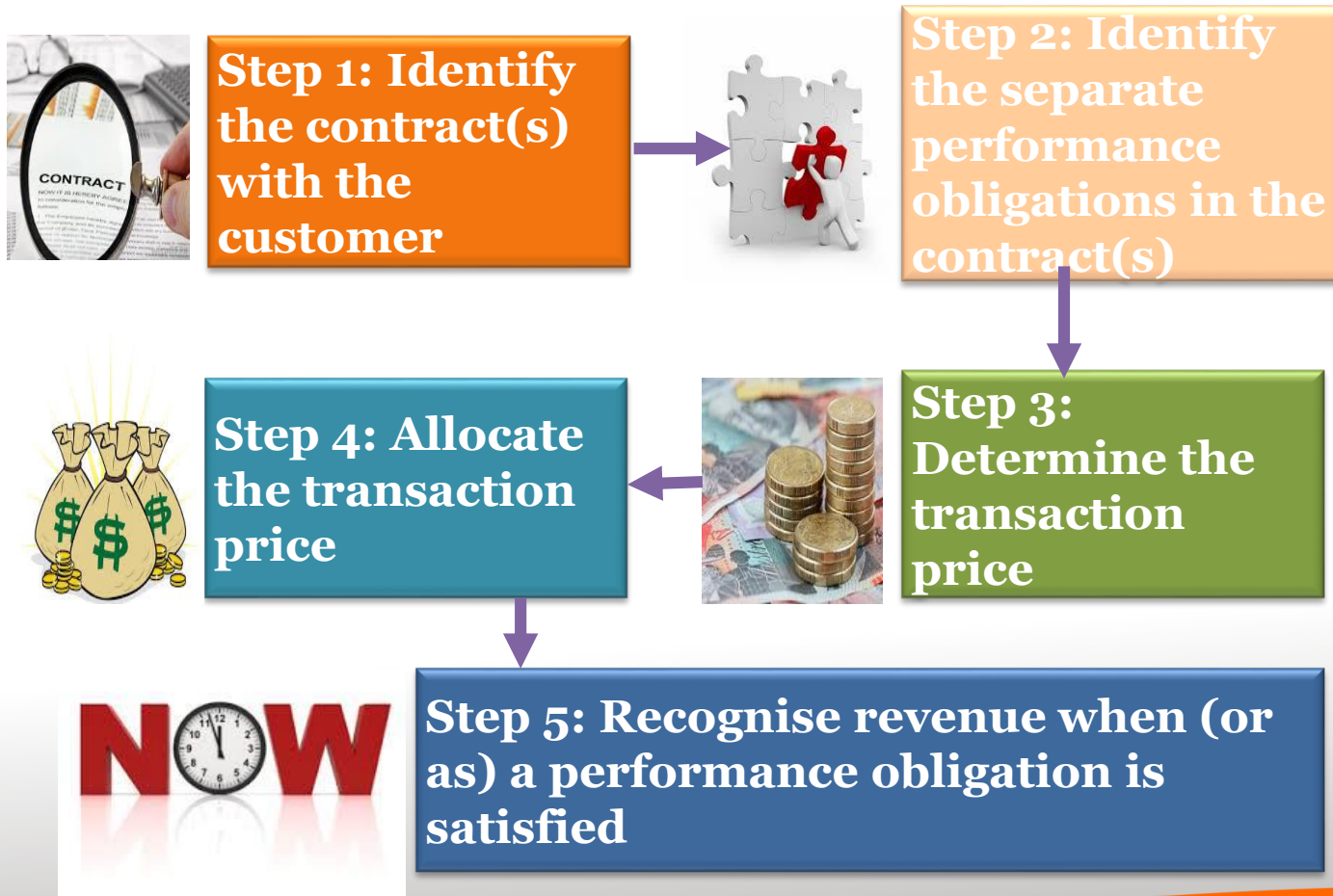
Revenue from Contracts with Customers (IFRS 15)

- IFRS 15 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*.

IFRS 15 Revenue from contracts with customers Scope



The five step model



Other considerations

Further guidance

Warranties

***Customer option to
obtain additional
goods or services***

***Right of
return***

Agent vs Principal

Disclosure

***Repurchase
agreements***

Licenses

Contract costs

Transition

***Bill-and-Hold and
Consignment
arrangements***



Transition to IFRS 15

- **Key principles to note:**
 - Date of initial application- 1st day of reporting period of first application
 - Completed contract- full satisfied contract
 - **Method of transition (OPTIONAL):**
 - a) C3a)Retrospective subject to para C5 expedients
 - b) C3b)Retrospective cumulative- C7&C8- RE adjustment
- Exemption** from full compliance with IAS8.28 disclosure (disclose (f) only).



Will Revenue be the same?

Four important industries that will face probably the biggest challenges:

- 1. Telecommunications** (with link to example: Identifying individual performance obligations and allocating transaction price)
- 2. Manufacturers** (Contract modifications)
- 3. Real estate and property development** (Revenue over time/at the point of time)
- 4. Software development and technology** (Splitting the contract into 2 separate obligations)



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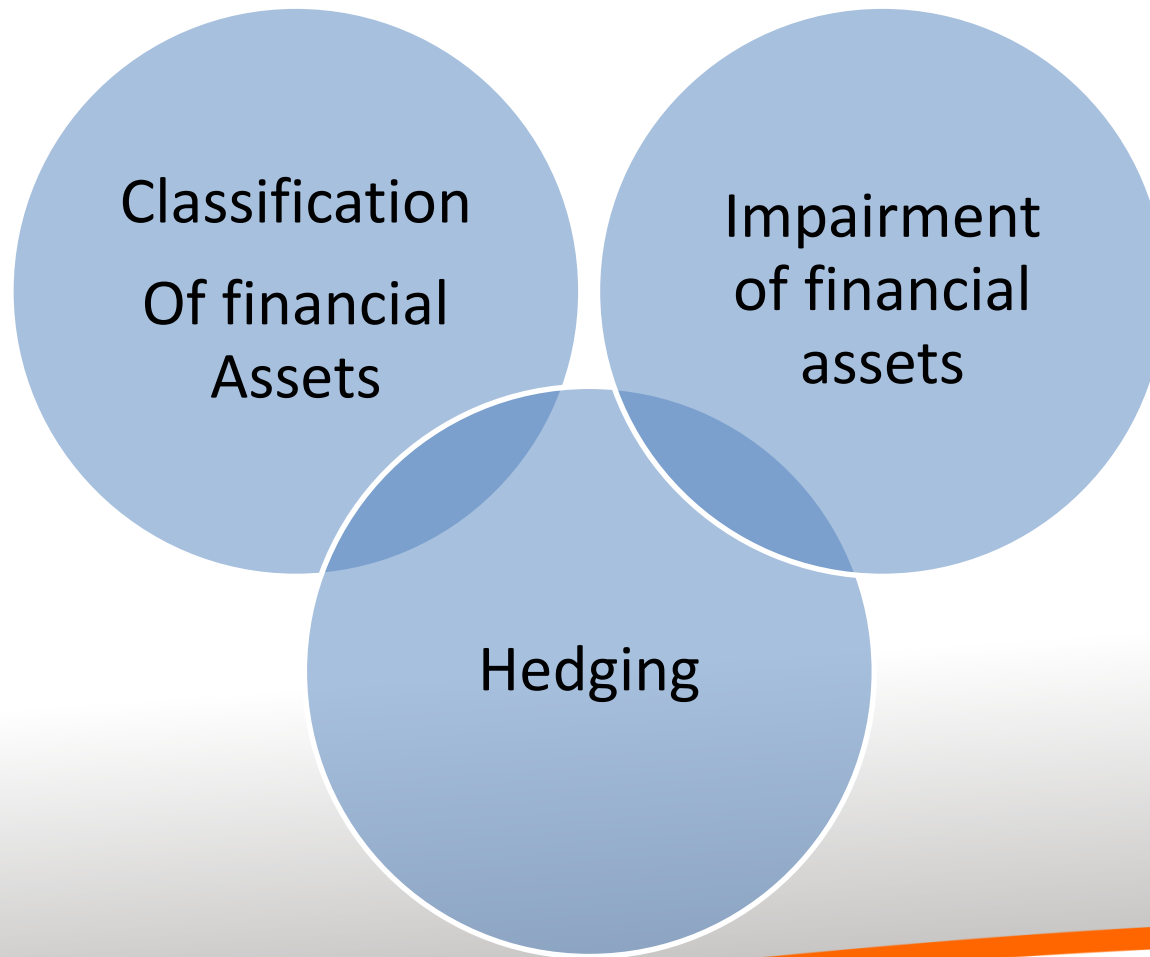


Financial Instruments

- IFRS9: RECOGNITION AND MEASUREMENT
- 2014 IFRS9; replaces IAS 39, IFRIC 9 and earlier versions of IFRS 9);
- Amendments to IFRS 7 *Financial Instruments : Disclosures*

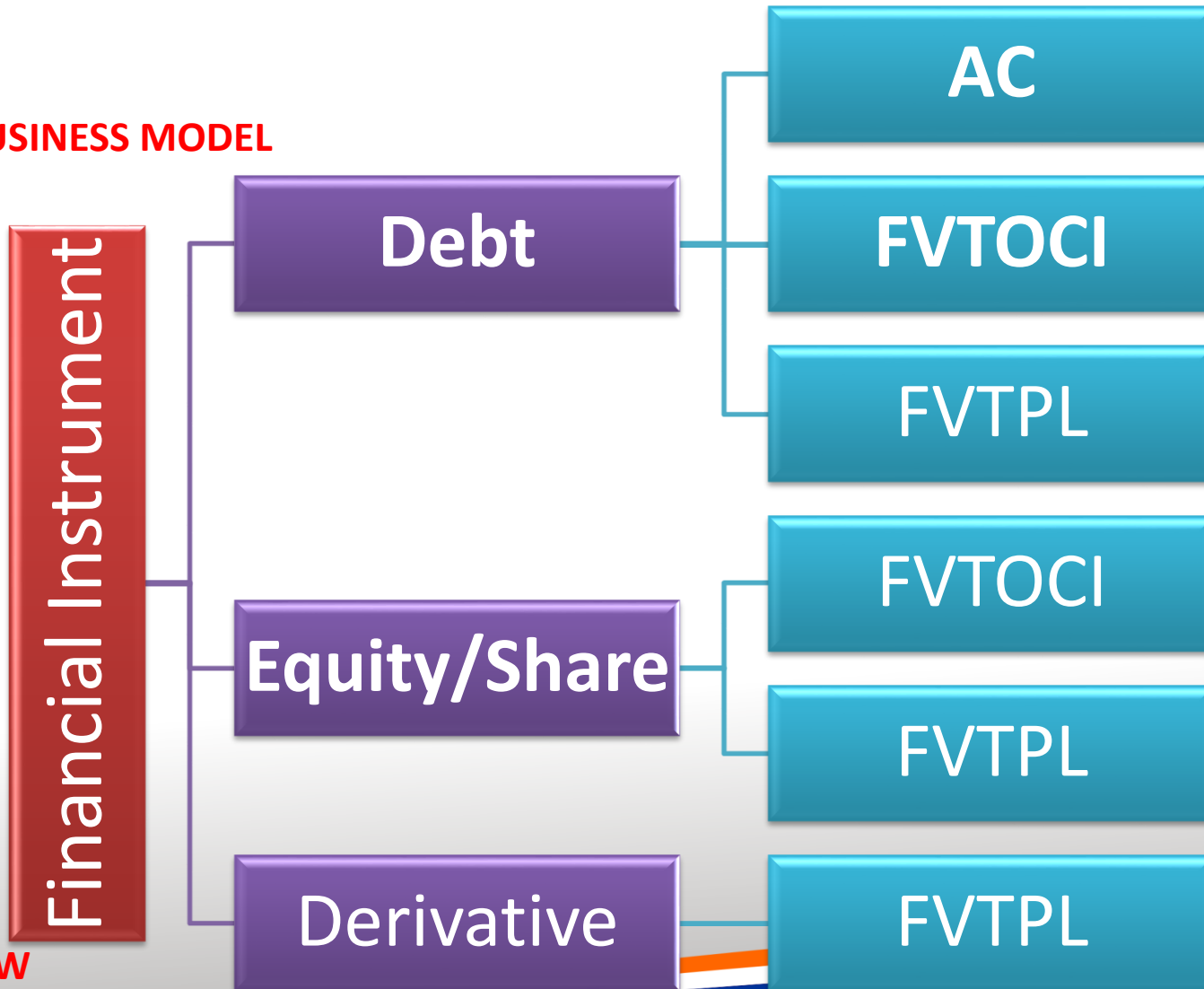


What Changed IN IFRS 9?



IFRS 9 Classification of Financial Assets

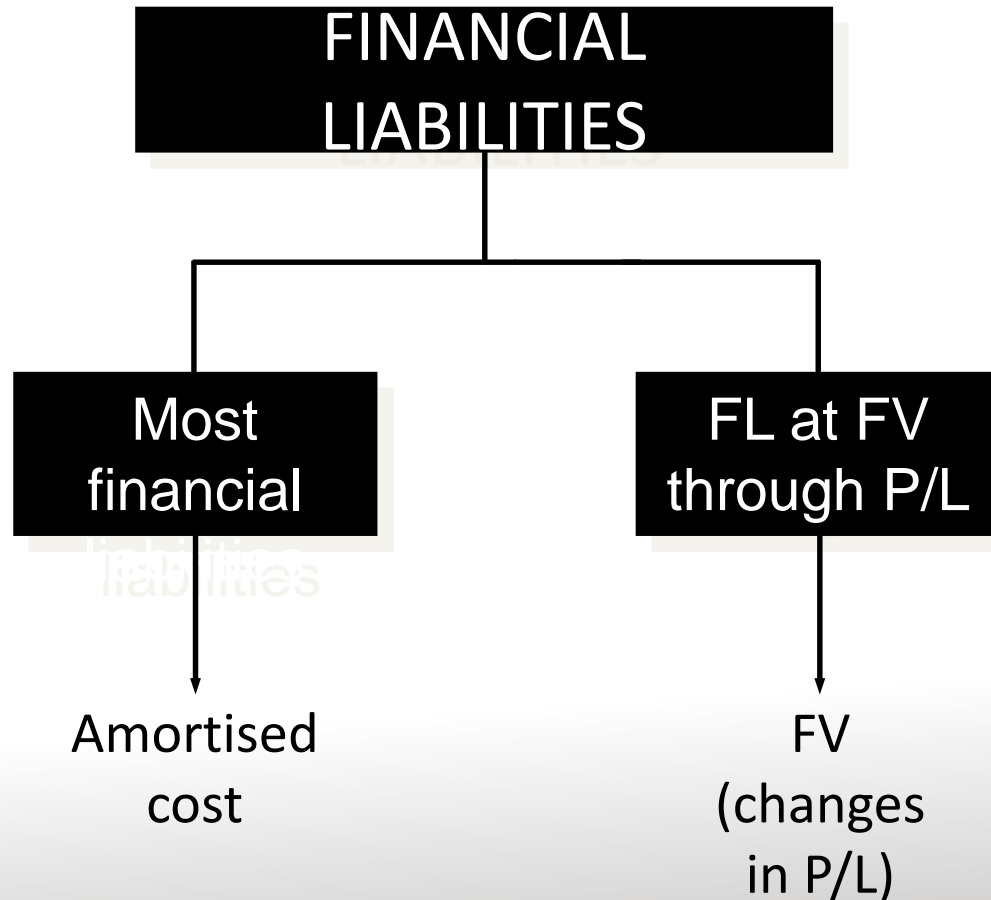
ENTITY'S BUSINESS MODEL



CASH FLOW
CHARACTERISTICS



Financial Liabilities - Subsequent measurement



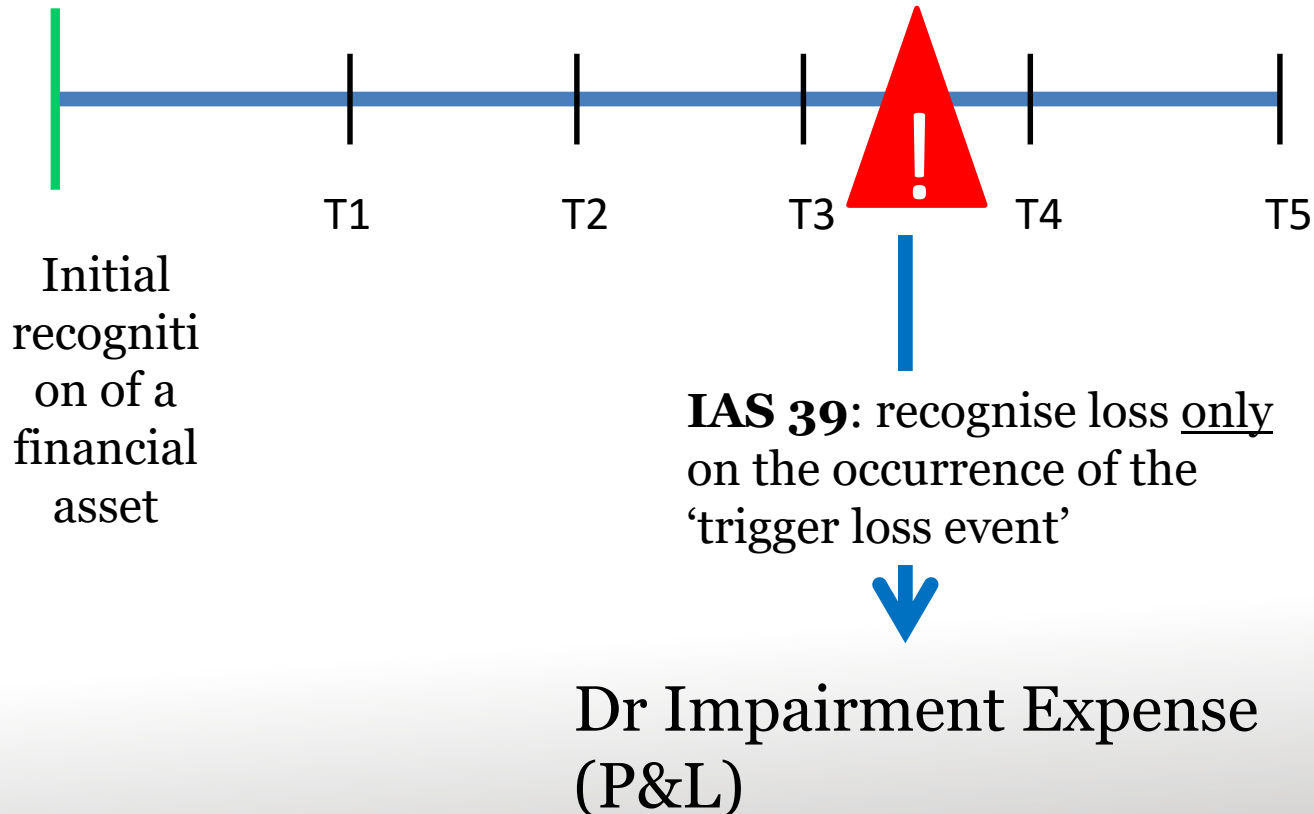
IASB's intention

Incurred
Loss Model
(IAS 39)

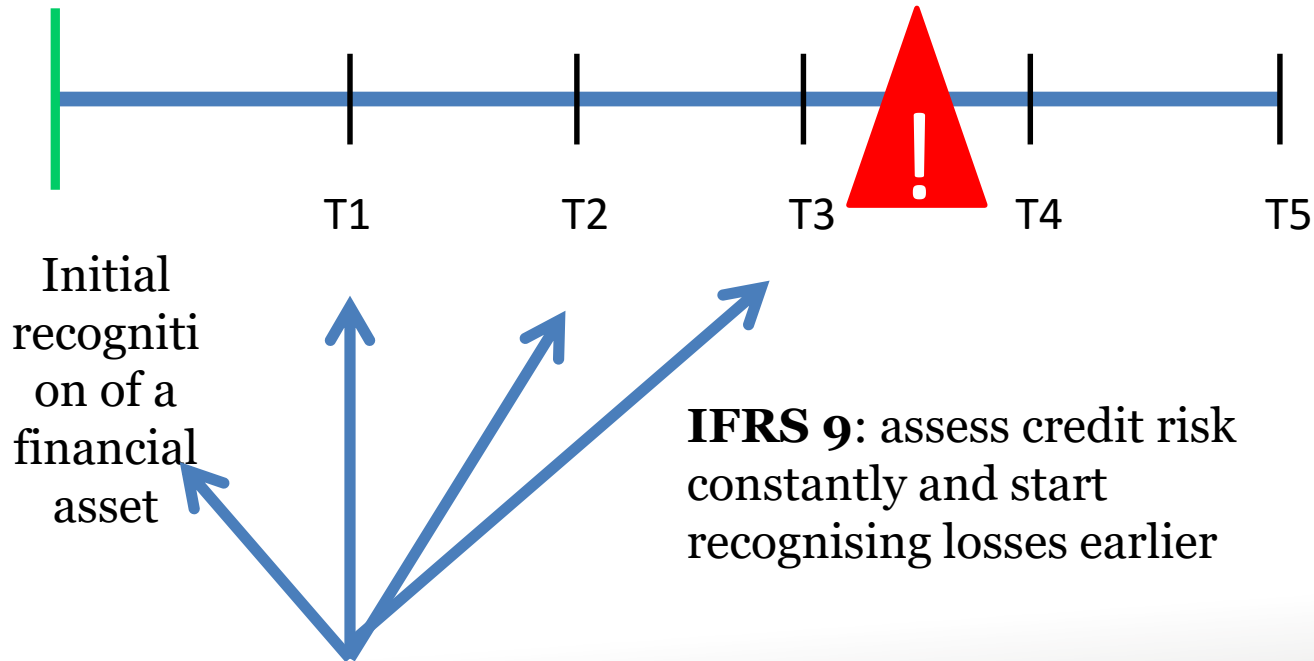
Expected
Loss Model
(IFRS 9)

Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, IFRS 9 provides timely information about expected credit losses.

IASB's intention - previously



IASB's intention – currently



IFRS 9: assess credit risk constantly and start recognising losses earlier

Dr Impairment Expense (P&L)

Cr Expected Credit Loss Allowance



Scope: which assets are subject to the ECL model?

- Financial assets measured at amortised cost;
Exception: Purchased / originated credit impaired financial assets
- Financial assets measured at FV through OCI;
- Trade receivables, contract assets and lease receivables;

IFRS 9 para
5.5.1.



Overview of requirements

IFRS 9 5.5.9 –
5.5.11

Change in credit quality since initial measurement of financial asset

Stage 1 (IFRS 9 par 5.5.5)	Stage 2 (IFRS 9 par 5.5.9 – 5.5.11)	Stage 3
No significant increase in credit risk	Significant increase in credit risk	Credit impaired
Performing	Under-performing	Non-performing

Expected Credit Losses Recognised (ECL Allowance)

12 month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
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Interest revenue

Gross basis	Gross basis	Net basis
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General deterioration of the credit quality of the financial asset



General approach

- Recognise a loss allowance for expected credit losses on all financial assets within the scope;
- If:
 - Credit risk has increased significantly since initial recognition, the loss allowance will be at an amount equal to lifetime expected credit losses
 - Credit risk has NOT increased significantly since initial recognition, the loss allowance will be at an amount equal to 12month expected credit losses



Exceptions to the general approach

- Trade receivables, contract assets and lease receivables; and
IFRS 9 5.5.15
- Purchased / Originated Credit-impaired Financial Assets
IFRS 9 5.5.13

On that basis, Company M estimates the following provision matrix:

	Current	1–30 days past due	31–60 days past due	61–90 days past due	More than 90 days past due
Default rate	0.3%	1.6%	3.6%	6.6%	10.6%

Effective date

- Effective 1 Jan 2018
- Earlier application is permitted



Transition to IFRS 9

- Retrospective application, with exceptions
- Initial date of application



Other Issues

- ED 2015/11- Application of IFRS 9 with IFRS 4
- A proposed amendment to IFRS 4
- Difference timing for applying IFRS9 and the new IFRS 4
- Possible accounting mismatches and misunderstandings
- Overlay approach + temporary exemption



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IFRS 16- Leases

A Snap Shot



At a Glance

- IASB issued IFRS 16 Leases in January 2016.
- FRS 16 sets out:
 - the principles for the recognition,
 - measurement, presentation and
 - disclosure of leasesfor both parties to a contract, i.e.. the customer ('lessee') and the supplier ('lessor').
- effective from 1 January 2019.
- A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers.



What is changing?

- IFRS 16 supersedes:
 - IAS 17 *Leases*;
 - IFRIC 4 *Determining whether an Arrangement contains a Lease*;
 - SIC-15 *Operating Leases—Incentives*; and
 - SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.



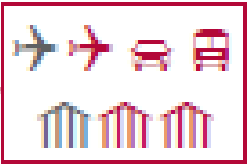


What will change?

Does IFRS 16 apply to service contracts?

- No, IFRS 16 only applies to lease of assets
- Service contracts will be accounted for under IFRS 15
- Lessee accounting:
 - No lease classification as finance and operating lease
 - Right of use model for both all lease in lessee



What changes in the Lessee's SFP?

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets	✈️ 🏢	---	 ✈️ ✈️ 🚗 🚗 🏢 🏢 🏢
Liabilities	\$\$	---	 \$\$\$\$\$\$
Off balance sheet rights / obligations	---	 🚗 🚗 ✈️ 🏢 🏢 \$\$\$\$\$\$	---



What changes to the P&L of the lessee?

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs (<i>excluding depreciation and amortisation</i>)	---	Single expense	---
EBITDA			↑ ↑
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
Profit before tax			↔

Effective date and Transition

- Effective 1 Jan 2019
- Applied either:
 - retrospective with expedience
 - Retrospective cumulatively



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IASB Exposure Drafts



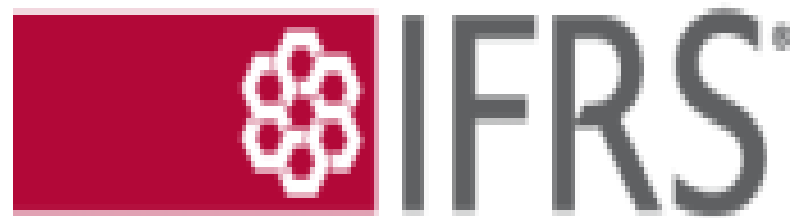
This year to-date, the IASB has issued the following exposure drafts:

- Exposure Draft: Definition of a Business and Accounting for Previously Held Interests (Amendments to IFRS 3 and IFRS 11);
- Exposure Draft: Amendments to IAS 40 *Investment Property*;
- Annual Improvement to IFRS;
- IFRS Practice Statement on Materiality; and
- Amendments to the Conceptual Framework.



IASB Work Plan –

As at 23 June 2016



Major Projects				
Next major project milestone				
	Current activity	Within 3 months	Within 6 months	After 6 months
Upcoming Standards and other pronouncements				
Insurance Contracts	Drafting IFRS			Issue IFRS
Conceptual Framework	Analysis			Issue Conceptual Framework
Published Exposure Drafts				
Disclosure Initiative — <i>Materiality Practice Statement</i>	Analysis		Decide Project Direction	
Published Discussion Papers				
Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging	Analysis			Publish DP
Rate-regulated Activities	Analysis			Publish DP
Upcoming Discussion Papers				
Disclosure Initiative — Principles of disclosure	Drafting DP		Publish DP	
The Disclosure Initiative is a portfolio of Implementation and Research projects.				

Any questions?





*Thank
you*



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