IFRS – Wrapping up 2022

IASB's Effective pronouncements 2022-2024

January 2023

MAKING AN IMPACT THAT MATTERS since 1845

Content

"The year of 2022 has witnessed the slowdown in global economic activity with inflation higher than ever seen in decades. This causes a pervasive impact on business in many aspects and levels throughout the world. To assist in the accounting close for the Financial year ended 31 December 2022, we would like to bring to your attention amendments published by the IASB that came into effect from 01 January 2022."

Bui Van Trinh
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Amendments effective for Financial year 2022

Annual Improvements to IFRS Standards 2018 - 2020

Subsidiary as a First-time Adopter (Amendment to IFRS 1)

Potential affected areas: Cumulative exchange rate difference

Paragraph D16(a) of IFRS 1 First-time Adoption of International Financial Reporting Standards allows a subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements.

The amendment extends this to the cumulative translation differences for all foreign operations. For those, the subsidiary that uses the exemption in IFRS 1.D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1.D16(a).

The IASB decided to permit, but not require, a subsidiary applying IFRS 1.D16(a) to use exemption for cumulative translation differences.

Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)

Potential affected area: Financial liability

IFRS 9 Financial Instruments requires an entity to derecognize a financial liability and recognize a new financial liability when there is an exchange between an existing borrower and the lender of debt instruments with substantially different terms (including a substantial modification of the terms of an existing financial liability or part of it).

The terms are substantially different if the discounted present value of the remaining cash flows under the new terms are at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability ('10 per cent' test).

The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Lease Incentives (Amendments to IFRS 16)

Potential affected areas: Leases

Illustrative Example 13 of IFRS 16 Leases includes as part of the fact patterns a reimbursement relating to leasehold improvements. The example does not explain clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16.

To resolve any potential confusion regarding the treatment of lease incentives, the amendment now removes the illustration of the reimbursement of leasehold improvements.

Taxation in Fair Value Measurements (Amendments to IAS 41)

Potential affected areas: Biological assets

In 2008, the IASB removed from IAS 41 Agriculture the requirement to use a pre-tax discount rate when measuring fair value. However, at that time, it did not remove from IAS 41:22 the requirement to use pre-tax cash flows when measuring fair value.

To resolve this conflict, the IASB now removed the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e., for fair value measurements on or after the date an entity initially applies the amendment.

Suggested action:

Entities should be aware of the changes that come into effect in FY2022 and perform a comprehensive review of financial information prior to closing date to ensure the presentation of financial statements are in compliance with the latest updates from IASB.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

To clarify costs an entity considers in assessing whether a contract is onerous

Potential affected areas: Provisions

In May 2020, the IASB published 'Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)'. The amendments specify that the 'cost of fulfilling a contract' comprises the 'costs that relate directly to the contract'.

Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

An executory contract becomes onerous when the unavoidable costs of meeting the obligations exceed the expected economic benefits from it. This would be the case, for example, when an entity cannot cancel, and must continue to pay for a cleaning contract even though it has vacated the premises which the contract stipulates. An onerous contract gives rise to a provision. Care must be taken, however, not to include in the provision future operating losses.

Consistent with the definition of the term 'onerous contract', the assessment of whether a contract is onerous should be made considering the totality of the contract (the totality of the remaining contract in the case of an on-going contract).

For example, it is not appropriate to recognize a provision for:

- An individual performance obligation within a larger, overall profitable contract, for which the costs of fulfilling that obligation exceed the transaction price allocated to it under IFRS 15; or
- A 'loss making' year within an overall profitable multi-year arrangement.

Similarly, if an entity has a portfolio of similar contracts with different customers (for example, with multiple customers receiving similar goods or services), an onerous contract provision should be recognized for loss making contracts within that portfolio regardless of the existence of other profitable contracts.

Suggested action:

Upon applying the amendments, entities should review the cost of fulfilling a contract upon assessing whether a contract is onerous. Entities apply the amendments to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparative figures are not restated, the cumulative effect of initially applying the amendments is recorded as an adjustment to the opening balance of retained earnings or other component of equity.

IAS 16 Property, Plant and Equipment

To amend the accounting treatment related to proceeds of products before intended use

Potential affected areas: Property, Plant and Equipment, Revenue

Cause of Change: The previous way of capitalization proceeds of products before intended use does not reasonably reflect the nature of revenue (and the related expenses).

Before the amendment, these proceeds were recognized as a decrease in the original cost of asset instead of revenue. It would hence reflect a lower revenue. As the original cost of asset decreases, depreciation expenses for these assets would also be lower throughout their useful life, which led to the fact that the recorded expense is lower than actual.

The IASB concluded that the proceeds from the sale of products from the trial run before the assets are ready for use and the related expenses satisfy the Revenue – Expense recognition criteria in the Conceptual Framework. Therefore, IAS 16 amended the accounting treatment related to proceeds of products before intended use as followed:

- Prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items in Profit & Loss.
- An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.
- The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments also require that the financial statements shall also disclose the amounts of proceeds and cost included in Profit & Loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

Suggested action:

Upon applying the amendments, entities should be aware of the risk of misstatement resulting from PP&E being inaccurately capitalized, and potential impact on the recognition of deferred tax assets or liabilities.

IFRS 3 Business Combination reference to the Conceptual Framework

To amend the reference of IFRS 3 to Conceptual Framework

IASB has made some amendments to IFRS 3, including:

- Update to refer to the 2018 Conceptual Framework instead of the 1989 Framework;
- Add a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- Add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

Amendments effective for Financial year 2023

IFRS 17 Insurance contracts

Addressing concerns and implementation challenges identified after IFRS 17 Insurance Contracts was published in 2017

Effective date: 01 January 2023 (earlier application is permitted)

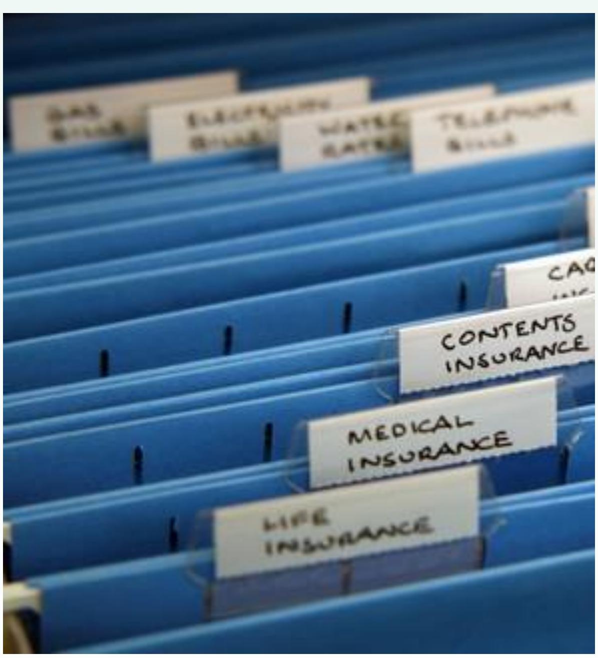
Potential affected areas: Insurance contracts

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]

The amendments to IFRS 17 aim to:

- Reduce costs by simplifying some requirements in the Standard;
- Make financial performance easier to explain; and
- Ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.

Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. An entity shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.



IFRS 4 Insurance contracts

Extension of the Temporary Exemption from Applying IFRS 9

Effective date: 01 January 2023

Potential affected areas: Financial instruments of insurance companies

IFRS 9 Financial Instruments addresses the accounting for financial instruments and is effective for annual reporting periods beginning on or after 1 January 2018. However, for insurers meeting the eligibility criteria, IFRS 4 provides a temporary exemption which permits them to continue to apply IAS 39 Financial Instruments: Recognition and Measurement rather than implementing IFRS 9. This temporary exemption was applicable to annual periods beginning before 1 January 2021. In June 2020, the IASB published an amendment to IFRS 4 to extend the temporary exemption from applying IFRS 9 until annual periods beginning before 1 January 2023. This amendment maintains the alignment of the effective dates of IFRS 9 and IFRS 17.

IAS 1 Presentation of Financial Statements

Disclosure of Accounting Policies

Effective date: 01 January 2023 (earlier application is permitted)

Potential affected areas: Accounting Policies

The Board concluded that the concept of materiality could be applied in making decisions about the disclosure of accounting policies. Therefore, the Board decided to amend IAS 1 to replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. In the Board's view, accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

Suggested action:

Upon applying the amendments, entities should be aware of the difference between 'significant accounting policies' and 'material accounting policy information'. This would lead to the changes in disclosure of accounting policies in the financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Definition of Accounting Estimates

Effective date: 01 January 2023 (earlier application is permitted)

Before the amendments, IAS 8 contained a definition for accounting policies and a definition for a change in accounting estimates. The combination of a definition of one item (accounting policies) with a definition of a change in another item (change in accounting estimates) obscured the distinction between both items. To make the distinction clearer, the Board decided to replace the definition of a change in accounting estimates with a definition of accounting estimates.

The Board amends IAS 8 to define accounting estimates as 'monetary amounts in financial statements that are subject to measurement uncertainty'. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

IAS 12 Income Taxes

Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Effective date: 01 January 2023 (earlier application is permitted)

Potential affected areas: Deferred tax assets, deferred tax liabilities

The Board amends IAS 12 to provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 Leases at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
    - Right-of-use assets and lease liabilities
    - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

First-time adopters apply these provisions at the date of transition to IFRS Standards.

Amendments effective for FY2024

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

Lease Liability in a Sale and Leaseback

Effective date: 01 January 2024 (earlier application is permitted)

Potential affected areas: Lease liability, Financial Liability, Revenue, Lease expenses

The changes in Lease Liability in a Sales and Leaseback amend IFRS 16 to:

- specify the method a seller-lessee uses to measure initially the right-of-use asset and the liability arising in sale and leaseback transactions in which the transfer of the asset satisfies the requirements to be accounted for as a sale of the asset;
- specify that the lease liability recognized for the leaseback reflects the expected lease payments and includes variable lease payments, including those that do not depend on an index or rate;
- add subsequent measurement requirements for the lease liability arising in these sale and leaseback transactions; and
- require a seller-lessee to apply the amendment retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

Suggested action:

Upon applying the amendments, seller-lessee needs to develop an accounting policy for determining 'lease payments' at the commencement date. Depending on the circumstances, the following 2 approaches could meet the requirements in paragraph 102A in IFRS 16.

1. Approach 1: Expected lease payment at commencement date

Seller-lessee determines 'lease payments' to reflect the expected lease payments at the commencement date that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at that date.

2. Approach 2: Equal lease payments over the lease term

Seller-lessee determines 'lease payments' to reflect equal periodic payments over the lease term that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at the commencement date.

Amendments to IAS 1 — Presentation of Financial Statements

Non-current Liabilities with Covenants

Effective date: 01 January 2024 (earlier application is permitted)

Potential affected areas: Liabilities

IASB has published 'Non-current Liabilities with Covenants (Amendments to IAS 1)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

The amendments of IAS 1 specify:

- Only covenants an entity must comply with on or before the reporting period should affect classification of the corresponding liability as current or non-current
- For covenants an entity must comply after the reporting period, an entity is required to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months
- The amendments are applied retrospectively (applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

The amendments defer the effective date of the amendments to IAS 1 titled Classification of Liabilities as Current or Non-current published in January 2020 (the 2020 amendments) by one year to annual reporting periods beginning on or after 1 January 2024.

Suggested action:

If applying the amendments earlier than the mandatory effective date, entities should assess their rights at the end of the reporting period for classification of liabilities as current and non-current. For example:

- If an entity has the right to roll over a loan for the next twelve months after the reporting period, the loan liability will be classified as non-current liability, even if its term is shorter than 12 months.
- If a loan covenant is breached on or before the end of the reporting period, the entity will classify the loan as current liability even if the lender agreed after the reporting period that they do not demand payment as the consequence of the breach.

Entities should be aware that the amendments are to be applied retrospectively, and restatement of financial statements is required.

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