Global IFRS external

December year-end accounting reminders – IFRS

December 2018

Standards and IFRICs newly applicable for companies with 31 December 2018 year ends 6

New IFRS standards effective after 1 January 2019 8

This information is extracted from Inform. More information, is available under the **Accounting topic home pages** *which are updated in real-time.*

Introduction

This publication relates to reporting requirements as at 31 December 2018. The first section on Topical issues includes items that you might want to consider for this year end but you should note that these items are updated real time on **PwC's Inform** (see www.inform.pwc.com).

The second part of the document includes the standards and interpretations that are newly applicable for 31 December year ends.

The final part of the document includes the standards and interpretations that are effective in the future but as per paragraph 30 of IAS 8 need to be disclosed.

Topical issues

Brexit

The UK is due to leave the European Union on 29 March 2019. As the UK continues to negotiate its exit, businesses should be considering how this new political landscape will impact their organisations. Irrespective of the outcome of the negotiations, whether that be with or without a deal, there will likely be significant changes for many UK businesses. But this is not just a concern for UK businesses, Brexit might also impact overseas entities doing business with the UK, as well as groups with substantial UK operations.

For some businesses, the shape of the UK's future relationship with the EU remains too uncertain to take action. However, in our view, by now management should have identified and assessed the Brexit-related risks that apply to their business and should be considering the impact on accounting and reporting.

Impact of IFRS 16 within 2018 annual reports

IFRS 16, the new accounting standard for leases, becomes effective for annual reporting periods commencing on or after 1 January 2019. As with other new accounting standards, IFRS reporters are required to disclose information relevant to assessing the impact of IFRS 16 in periods prior to adoption.

There has been recent regulator focus on providing robust disclosure of the impact of IFRS 16 within 2018 annual reports.

pwc

The European Securities and Markets Authority (ESMA) stated its expectations of this disclosure in its 26 October 2018 **Public Statement of European Common Enforcement Priorities for 2018 Annual Reports**.

In particular, ESMA notes that, because the 2018 annual report will be published after the requirements in IFRS 16 become effective, it expects that issuers will have substantially completed their IFRS 16 implementation by the time that the 2018 annual report is issued. ESMA clearly stated that it expects that the impact of IFRS 16 should be known or reasonably estimable at the time of preparing the 2018 annual report, and so this impact should be disclosed.

It is therefore important that entities carefully consider the expected impact of IFRS 16, to provide specific and meaningful disclosure.

With reference to the requirements of IAS 8, and the expectations of ESMA, we set out below our practical suggestions of matters for entities to consider disclosing in relation to the expected impact of IFRS 16:

- Disclose the fact that IFRS 16: Leases has not yet been applied, that it is applicable for annual reporting periods commencing 1 January 2019, and the date on which the entity expects to first apply IFRS 16.
- Information about the structure and status of the entity's implementation project.
- A description of the changes in accounting policy which will take effect, including whether exemptions will be applied (such as low-value or short-term exemptions).
- A description of which transition approach will be taken, and whether any practical expedients will be applied.
- A description of the key judgements and estimates made (such as assessing whether an arrangement contains a lease, determining the lease term, calculating the discount rate and whether any service/lease components of arrangements will be separated), and identifying lease portfolios for which IFRS 16 has a significant impact.
- Quantification of the expected impact (restatement to assets, liabilities and retained earnings/opening retained earnings adjustment, or the change in assets, liabilities, income, expense on adoption, depending on transition approach).
- If taking the practical expedient in respective of applying onerous provision as an alternative to performing an impairment view on transition, a comprehensive onerous lease assessment in the final year of IAS 17 should be carried out.
- If alternative performance measures (APMs) are used by investors (such as EBITDA), and IFRS 16 is expected to have a significant impact on those APMs, the quantum of that impact (considering ESMA guidance on the use and disclosure of APMs).
- If taking the simplified transition approach, an explanation of any differences between the current operating lease commitment disclosure and IFRS 16 lease liability balances, and a statement that lease liability comparative information has not been restated.

NB: these practical suggestions are solely an indicative guide of how an entity could respond to the need to disclose the impact of IFRS 16. Disclosures should be entity-specific, and each entity should consider what disclosures best meet the requirements of IAS 8 and regulator expectations, based on their specific facts and circumstances.

Supplier finance arrangements

We continue to see a large number of questions around the accounting for supplier financing arrangements. Such arrangements raise the question of whether the trade payables that are the subject of the supplier financing should be derecognised and replaced by a bank borrowing. Accounting correctly for supplier financing arrangements has become particularly pertinent in light of the recent failure of Carillion, as we expect more attention to be focused, amongst other areas, on a company's source of finances. This includes whether a company has made material use of supplier finance, if this is transparent from the annual report, whether related balances are appropriately presented as bank debt or trade creditors and whether subsequent cash flows are appropriately presented in the statement of cash flows.

Further guidance on supplier finance arrangements and indicators of extinguishment are available in chapter 44 of the IFRS Manual of Accounting and **PwC's practice aid**.

The accounting for supplier finance arrangements will depend on the exact facts and circumstances relating to them.

Debt restructurings

We continue to see a large number of questions on the restructuring of issued debt instruments, for example loan facilities or bond financing. This is a complex area of accounting which can require significant judgement. To assist engagement teams in understanding the potential issues, some of the key accounting considerations (under IAS 39 and IFRS 9) are summarised below. Relevant guidance (under IAS 39 and IFRS 9) is provided in **IFRS MoA** paras 44.106 – 44.110.

- Under IAS 39 and IFRS 9, where a financial liability is exchanged or its terms are modified but the liability remains between the same borrower and the same lender, it is necessary to assess if the terms are substantially different. If they are substantially different, the transaction should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.
- Treatment of gain or loss on modification/extinguishment.
- Treatment of fees incurred as part of the renegotiation – whether the fees should be recognised immediately or whether they can be capitalised.
- Use of an Intermediary – A corporate may use a bank as an intermediary when restructuring its debt. For example, when a corporate wants to change the terms or maturity date of an existing bond, it may use a bank as an intermediary to buy back the original bonds and then sell the modified bonds to investors. The accounting for this is complex. A key accounting consideration in this situation is whether the bank is acting as an agent or as principal, which is highly judgmental. If the bank is not acting as principal the corporate would have to treat the modification of the bonds as an extinguishment with any gains/losses recognised in profit and loss.
- Modifications when a credit facility is undrawn.

In October 2017 the IASB confirmed that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. For further details refer to PwC In brief **UK2018-01** and PwC In brief **INT2017-13**.

Factoring of receivables and the effect on the cash flow statement

Factoring of receivables is a well-established method of obtaining finance, sales ledger administration services or protection from bad debts. A factoring transaction involves a transferor transferring its rights to some or all of the cash collected from some financial asset (usually receivables) to a third party (the factor) in exchange for a cash payment.

In a factoring arrangement where an entity de-recognises the factored receivables and receives cash from the factor, the cash receipt is classified as an operating cash inflow. This is because the entity has received cash in exchange for receivables that arose from its operating activities.

Where the entity continues to recognise the receivables and the amount received from the factor is recorded as a liability, the cash received is classified as a financing cash inflow. The substance of the factoring arrangement is financing, in which the entity retains substantially all of the risk and rewards of the factored receivables.

In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities (for further details refer to PwC In brief **INT2016-04**). Entities are now required to disclose information that will allow users to understand changes in liabilities arising from financing activities.

Regulatory interest and key reminders for impairment reviews

Impairment is an ongoing area of concern for many of our clients. Regulators remain focused on this area and continue to push for increased transparency in disclosures.

Groups holding significant amounts of goodwill and intangibles are at greater risk of a regulatory challenge to their impairment assessments and in particular the related disclosures.

The key points in impairment testing are:

- For the value-in-use (VIU) model key assumptions should stand up against external market data. Cash flow growth assumptions should be comparable with up-to-date economic forecasts.
- IAS 36 requires that the VIU model uses pre-tax cash flows discounted using a pre-tax discount rate. In practice, post-tax discount rates and cash flows are used which theoretically give the same answer but the need to consider deferred taxes makes this very complicated to achieve. Therefore if a post-tax VIU model results in a 'near miss' the next step should be to determine fair value less costs of disposal (FVLCD).
- The fair value model, which is a post-tax model, must use market participant assumptions, rather than those of management.
- In assessing for impairment, the carrying value should be determined on a consistent basis as the recoverable amount. For example:
  - Where the recoverable amount is determined using the fair value model, the carrying amount tested should include current and deferred tax assets/liabilities (but exclude assets for tax losses, because these are treated as separate transactions).
  - Where the VIU model (i.e. pre-tax) is applied, deferred tax assets should not be added to the carrying value and deferred tax liabilities should not be deducted (i.e. are not included in the carrying amount of the CGU). This could result in the carrying value for VIU being higher than the carrying value for FVLCD.

    However, in situations where there is significant deferred tax upfront, an IAS 36 VIU test may not be the most appropriate method to determine the recoverable amount of a CGU.
- For more tips on impairment reviews of non-financial assets, refer to In depth **INT2015-08**.

The required disclosures in IAS 36 are extensive. IAS 36 requires disclosure of the key assumptions (those that the recoverable amount is most sensitive to) and related sensitivity analysis. Note also IAS 1 para 125 requires disclosure of critical accounting judgements and of key sources of estimation uncertainty.

Key assumptions and wider ranging assumptions covering multiple Cash Generating Units 'CGUs' should be clearly disclosed. Where material, assumptions specific to each CGU should be identified. Changes to assumptions used, such as the discount rate, which has changed significantly from the previous year should be explained.

Regulators have observed that, whilst the long-term growth rate used to extrapolate cash flow projections (to estimate a terminal value) and the pre-tax discount rate are important; they are not 'key assumptions' on which the cash flow projections for the period covered by the most recent budgets or forecasts are based.

Therefore, attention should also be paid to the discrete growth rate assumptions applied to the cash flows projected to occur before the terminal period.

IFRS 3 consideration contingent on providing employee services

Contingent consideration in a business combination needs to be assessed to determine if the amounts payable are consideration for the business or are payable for post-combination employee services.

Where consideration payable is automatically forfeited if the vendor ceases to provide employment services, the amount payable is treated as remuneration for post-combination employee services.

Payments that are for employee services are charged in the group's post-combination income statement in accordance with IFRS 2 or IAS 19. Guidance on such arrangements is given in paragraph 29.194 onwards of the IFRS Manual of Accounting.

Impact of group restructurings

Many groups with European operations are undertaking restructurings in anticipation of the UK leaving the EU. This generally involves the disposal of an entity, business or group of assets within the same group of companies.

Any disposal or planned disposal or transfer of a non-current asset, group of assets or a business might trigger the requirements of IFRS 5, even if the disposal occurs within the same group or sub-group of entities.

For example, a business may be transferred from one sub-group to another sub-group within a bigger group of companies. From the perspective of the transferring sub-group, a disposal has occurred, because the business has been transferred to another entity outside of that sub-group. This will trigger the consideration of the held-for-sale classification requirements of IFRS 5. From the perspective of the bigger group, the business is still included in the consolidation, as no disposal has occurred.

The method of disposal (sale versus distribution to shareholders versus abandonment) will impact how IFRS 5 is applied. IFRS 5 refers equally to non-current assets and any group of assets that includes non-current assets, referred to as a 'disposal group'. Some disposal groups might be significant enough to constitute discontinued operations which trigger different presentation requirements. Closure of operations could also constitute discontinued operations.

Non-current assets (or disposal groups) classified as held for sale or as held for distribution are:

- measured at the lower of the carrying amount and fair value less costs to sell;
- not depreciated or amortised; and
- presented separately in the balance sheet (assets and liabilities should not be offset).

Further guidance is available in chapter 30 of PwC's Manual of Accounting.

Standards and IFRICs newly applicable for companies with 31 December 2018 year ends

Standards and IFRICs newly applicable for companies with 31 December 2018 year ends are set out below:

IFRS 9 'Financial instruments' (effective 1 January 2018)

This **standard** replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

For further details see **In depth 2018-08**.

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018)

This is a converged **standard** from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

For further details see **In depth 2018-08**.

Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018)

This **amendment** clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

For further details see **In depth 2018-08**.

Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments' (effective 1 January 2018)

These **amendments** introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.

For further details see **In depth 2018-08**.

Amendment to IAS 40, 'Investment property' relating to transfers of investment property (effective 1 January 2018)

These **amendments** clarify that to transfer to, or from, investment properties there must be a change in use. If a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

For further details see **In depth 2018-08**.

Annual improvements 2014–2016 (effective 1 January 2018)

These **amendments** impact two standards:

IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.

IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value .

For further details see **In depth 2018-08**.

IFRIC 22, 'Foreign currency transactions and advance consideration' (effective 1 January 2018)

This **IFRIC** addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

For further details see **In depth 2018-08**.

New IFRS standards effective after 1 January 2019

Under paragraph 30 of IAS 8, entities need to disclose any new IFRSs that are issued but not yet effective and that are likely to impact the entity. This summary includes all new standards and amendments issued before 31 December 2018 with an effective date beginning on or after 1 January 2019. These standards can generally be adopted early, subject to EU endorsement in some countries.

Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation	This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. For further details see In depth 2018-08
Published	October 2017
Effective date	Annual periods beginning on or after 1 January 2019
EU endorsement status	Endorsed

Annual improvements 2015–2017	These amendments includes minor changes to the following standards: • IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business. • IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. • IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way. • IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. For further details see In depth 2018-08.
Published	December 2017
Effective date	Annual periods beginning on or after 1 January 2019
EU endorsement status	Not yet endorsed

Amendments to IAS 28 'Investments in associates', on long term interests in associates and joint ventures	These amendments clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. For further details see In depth 2018-08.
Published	October 2017
Effective date	Annual periods beginning on or after 1 January 2019
EU endorsement status	Not yet endorsed

Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'	These amendments require an entity to: • use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and • recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. For further details see In depth 2018-08.
Published	February 2018
Effective date	Annual periods beginning on or after 1 January 2019
EU endorsement status	Not yet endorsed
IFRS 16 'Leases'	This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For further details see In depth 2018-08.
Published	January 2016
Effective date	Annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied.
EU endorsement status	Endorsed
Amendments to IFRS 3 – definition of a business	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. For further details see In brief 2018-13.
Published	October 2018
Effective date	Annual periods beginning on or after 1 January 2020
EU endorsement status	Not yet endorsed

Amendments to IAS 1 and IAS 8 on the definition of material	These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. For further details see In brief 2018-14.
Published	October 2018
Effective date	Annual periods beginning on or after 1 January 2020
EU endorsement status	Not yet endorsed

IFRS 17, 'Insurance contracts'	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. See our In depth 2018-08 'IFRS 17 marks a new epoch for insurance contracts accounting'.
Published	May 2017
Effective date	Annual periods beginning on or after 1 January 2021
EU endorsement status	Not yet endorsed

IFRIC 23, 'Uncertainty over income tax treatments'	This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. For further details see In depth 2018-08.
Published	June 2017
Effective date	Annual periods beginning on or after 1 January 2019
EU endorsement status	Endorsed

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. It does not take into account any objectives, financial situation or needs of any recipient; any recipient should not act upon the information contained in this publication without obtaining independent professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2018 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.