IFRS news

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IASB proposes clarifications to IFRS 15

The IASB has proposed amendments to IFRS 15 in some of the areas discussed by the TRG. These areas include accounting for licences, principal versus agent guidance and practical expedients on transition. The proposed amendments differ from those suggested by the FASB. Sallie Deysel from Accounting Consulting Services brings us up to speed on the ED.

The IASB has proposed amendments to the guidance on licences and principal versus agent and has suggested practical expedients on transition. These areas were previously discussed at the Transition Resource Group (TRG) and subsequently at joint meetings with the FASB.

Some of the issues were jointly deliberated, but the proposed changes are not the same as those proposed by the FASB. The revenue standards might therefore diverge before the 2018 effective date.

However, the proposals are subject to the boards' due process requirements which include a period for public comment that closes on 28 October 2015.

The areas where change is suggested

The IASB recommends limited clarifications to the guidance on accounting for licences of intellectual property (including application of the sales- or usage-based royalties exemption), more significant amendments to the principal versus agent guidance and two new practical expedients upon transition to the new standard.

The illustrative examples accompanying these areas of guidance will also be amended. In addition, the illustrative examples accompanying the guidance on identifying performance obligations will be amended to clarify how to assess whether a good or service is separately identifiable.

Will the standards remain converged?

Both boards have stated that their proposed changes clarify the standard's core principles and should not lead to differences in the application of IFRS 15 and the US standard, but the amendments to the guidance on licencing would result in different models if both boards adopt their proposed changes. The FASB is also proposing to amend the standard in several areas that the IASB is not (for example, measurement of non-cash consideration, shipping and handling activities and several others).

The FASB has already exposed several of the proposed changes to the US standard and many commentators noted that whatever the intention, if the Boards use different words to clarify the same principles, divergence is more likely.

Many stakeholders continue to support a fully converged standard.

The area most recently discussed by the boards was the principal versus agent guidance at their joint meeting in June 2015. The boards tentatively decided to make the same amendments on this topic and to retain convergence.

The reasons

The IASB was reluctant to make changes to the standard before it is even effective, but it identified a limited number of areas where it considered that amendments were essential to clarify the board's intentions when developing IFRS 15.

The IASB is also suggesting more extensive changes to the illustrative examples accompanying the standard, since it believes this is an effective way to clarify how the boards intend the guidance to be applied.

For more detail on the proposals in the IASB's exposure draft see here.

IASB issues ED on pensions

Richard Davis from Accounting Consulting Services brings us up to speed on the new Exposure Draft proposing amendments to IAS 19 and IFRIC 14.

The IASB has proposed narrow scope amendments to IAS 19 and IFRIC 14 to clarify how the recognition of changes that happen during the year impacts the income statement. The proposals also expand the guidance in IFRIC 14.

IFRIC 14 has proved difficult since it was issued in 2007. Divergent views on how it should be interpreted have evolved and at least one regulator has been looking hard at how entities have been applying it. Even before this, IFRIC 14 accounting for asset ceiling was one of the more challenging aspects of IAS 19. When IAS 19 was revised in 2011, incorporating IFRIC 14 into the standard (as is normal practice with interpretations) was put in the 'too difficult' box. The current ED amends IFRIC 14 rather than incorporating it into the standard.

The basics of IFRIC 14

The 'asset ceiling' guidance in IAS 19 only permits recognition of a surplus in a pension plan if it can be used to reduce future contributions or taken as a refund. IFRIC 14 was issued to provide more guidance on how these requirements should be applied in practice, particularly where legislation or plan terms specify how contributions should be determined.

It is unusual to say an asset can only be recognised if it can be used in a particular way. Normally, either something is an asset or it isn't. If there are restrictions around how it can be used, this is generally captured through measurement (for example, impairment). Surpluses in pension plans, back when they existed, were often used in ways other than a refund or contribution reduction; for example they would be used to pay for extra benefits, cost of living increases for pensioners or early retirement benefits.

The Basis for Conclusion of the ED does not provide any detail around why only a refund or contribution reduction justifies recognition. When looking at possible amendments to the standard some years ago, the IASB staff even explored whether the fact that the surplus could be used up in meeting future actuarial losses should be sufficient to justify recognition, but that idea did not progress very far.

The proposals

So, do the proposed changes make IFRIC 14 easier? They help to clarify the application of the guidance in IFRIC 14 on when a refund of a surplus is considered 'available'. The amendment specifies that if another party, typically the trustee(s) of the pension plan, has either:

- the power to use a surplus to increase benefits, then that surplus is not available; or,
- the power to wind up the plan, then you cannot look at whether or not a surplus would be available when the last pensioner dies (that is, a run-off).

What does that mean in practice? Almost certainly that looking at the specific facts and circumstances, particularly the governing documentation, for every plan will be critical. Small differences in wording could make big differences to the accounting. Depending on how you interpreted the requirements before these proposals, you might find more cases where any surplus is considered as not available.

Who is affected?

Very few plans have surpluses these days with pensioners living longer and current low discount rates. However, in many territories there are now minimum funding requirements that drive how contributions to plans should be determined. These come in many different varieties and are often more conservative than IAS 19. If these funding requirements mean that contributions have to be paid in respect of past service, an entity needs to consider the position assuming the funding deficit is met at the balance sheet date, even if the actual contributions may be spread over the next 20 years. Would meeting that funding deficit create an IAS 19 surplus? Would that surplus be available?

Even for plans that do not currently have a surplus, the question of whether or not any future surplus will be available can cause significant swings on the balance sheet. If any surplus is available, then paying contributions that create or increase a surplus is just the exchange of one asset (cash) for another asset (a prepayment). If any surplus would not be available, there is still a cash outflow, but in exchange for nothing (described by the IC as an onerous contract). This results in an expense recognised in OCI (Other Comprehensive Income).

The question of whether or not an entity has an unconditional right to a refund of surplus will still be a judgement, based on the specific facts and circumstances of each case. However, these proposals increase the chance that any surplus will be unavailable. A consequence of that will be more companies having to recognise a liability driven by their obligation to contribute to a pension plan rather than the benefits promised by that plan. Some think this is good accounting, others bad. In any event, we can all agree that it complicates the accounting.

What is next?

The comment period for these proposals closes on 19 October 2015. Although the changes to IFRIC 14 may impact relatively few preparers, when they do the impact can be very significant, moving from a balance sheet asset position to recognising an additional liability. We encourage preparers to consider the potential impact and respond to the IASB's invitation to comment.

The electronic version of the Manual of Accounting – Interim financial reporting is now available on Inform. This includes the Illustrative condensed interim financial statements 2015 and the Interim reporting disclosure checklist 2015.

Revenue TRG weighs in again on IFRS 15 implementation issues

The Revenue Transition Resource group (TRG) continues to debate implementation issues related to the new revenue standard.

Implementation issues arising from the IASB's and FASB's joint revenue standard continue to be a topic of debate. The TRG discussed nine issues at its fifth meeting in July. Two issues might require further discussion by the boards or at the next TRG meeting. For more details, see In Transition.

Potential areas for further consideration

Portfolio practical expedient and variable consideration constraint

Entities are permitted as a practical expedient to apply the guidance in IFRS 15 to a portfolio of contracts with similar characteristics, instead of to individual contracts. TRG members generally agreed that using evidence from other, similar contracts (that is, 'portfolio of data') to estimate the transaction price is not an application of the portfolio practical expedient.

TRG members also discussed how to apply the variable consideration 'constraint' when a 'portfolio of data' is used to estimate the transaction price and whether the constraint should or may be applied at an individual contract level. Several TRG members observed that estimating the transaction price and applying the constraint requires judgment. Some also noted that IFRS 15 is not clear and could result in different outcomes for similar transactions.

The staff will summarise the discussion and prepare some examples of how the guidance might be applied. The topic might be revisited at a future TRG meeting.

Completed contracts at transition

IFRS 15 is only applied to contracts that are not completed as of the adoption date when the modified retrospective transition method is used. IFRS 15 defines a 'completed contract' as a contract for which the entity has transferred to the customer all of the goods or services identified in accordance with the previous revenue guidance. The IASB has also proposed that entities electing full retrospective transition can choose to only apply the new guidance to contracts that are not complete as of the beginning of the earliest period presented.

TRG members discussed both how to determine whether a contract is complete and how to account for completed contracts at and after adoption of the new standard. TRG members had different views. As a result, the staff agreed to provide more examples for circulation among the TRG members. We expect more discussion of this topic prior to or at the next TRG meeting.

Other topics discussed

Other topics were discussed where further discussion or standard setting is not expected.

Consideration payable to a customer

TRG members revisited various issues related to consideration payable to a customer that were first discussed in March. The July discussion focused on the timing of recognition of consideration payable to a customer and whether there was a potential inconsistency with the guidance on when variable consideration is included in the transaction price. Some TRG members observed that despite a potential inconsistency in guidance, they do not expect large numbers of transactions to be affected.

Application of the series provision and allocation of variable consideration

TRG members observed that judgment is required to identify the promise and assess whether the series guidance applies. Variable fees might be allocated to individual goods or services within the series, as long as the variability relates to delivering those goods or services and the result is consistent with the allocation objective.

Practical expedient for measuring progress

IFRS 15 provides an optional practical expedient that allows revenue recognition based on the invoiced amount if that amount corresponds directly with the value to the customer of the entity's performance to date. TRG members generally agreed that the assessment of 'value to the customer' requires judgment. They also agreed that contracts without a fixed price per unit could qualify for the expedient in some circumstances.

Measuring progress

TRG members acknowledged that IFRS 15 is clear that a single method should be used to measure progress when multiple goods or services are included in a single performance obligation. They emphasised that determining a method will require judgment and cautioned that, if applying a single method provides an uneconomical result, this may indicate there is more than one performance obligation in the contract.

Transfer of control for a commodity

TRG members generally agreed that all relevant circumstances about the transfer of a commodity (of which the entity is aware) should be considered to determine whether the revenue is recognised over time, including more than just the characteristics of the underlying commodity.

Credit card fees (US GAAP only)

Most TRG members agreed with the staff's view that, under US GAAP, arrangements with credit cardholders are outside the scope of the new revenue standard. This conclusion is based on specific US GAAP guidance for credit card fees that was not amended by the new revenue standard. IFRS preparers should assess these arrangements in the context of IFRS 15 and the IFRS guidance for financial instruments.

Restocking fees and related costs

Most TRG members agreed with the staff's view that restocking fees and the related costs should be recorded at the time control of the product transfers to the customer.

Have you seen the latest Pwc IFRS blogs

Mary Dolson questions whether all change really is progress based on the experiences with the Revenue TRG

Peter Hogarth's thoughts on the concept of prudence in the Conceptual Framework

What do Exams, Star Trek and the IASB have in common? Find out in **Dave Walters's** blog

Cannon Street Press

Insurance and IFRS 9

The IASB has tentatively decided to amend IFRS 4 such that an entity applying IFRS 9 can make adjustments in profit or loss and other comprehensive income (OCI). The amendments would allow entities to remove the difference between the amounts that would be recognised in profit or loss in accordance with IFRS 9 and the amounts recognised in profit or loss in accordance with IAS 39 for specific assets from profit or loss and recognise in OCI. The net effect on profit or loss will reflect the IAS 39 accounting for those specified assets.

Next steps

The IASB will consider at a future meeting how to identify these assets, any additional disclosures and the requirements that would need to apply when those assets are transferred within a group.

Furthermore the Board will discuss at future meetings the potential deferral of IFRS 9 for insurers to address concerns of stakeholders around adoption of IFRS 9 before the new insurance standard. The IASB staff noted that there may be a need to consider whether a single approach or a variety of approaches (for example a combination of asset and liability based approaches) are necessary, because of the difficulties in precisely targeting any approaches and the different circumstances affecting reporting entities.

IFRS Implementation Issues

The IASB discussed several implementation issues that were originally discussed by the IC.

Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures

The IASB decided to suspend work on a narrow-scope amendment to IFRS 10 and IAS 28 and instead address those issues as part of the research project on the equity method of accounting. It also decided to postpone for an indefinite period the effective date of a related amendment that was issued in September 2014 to prevent the requirements of IAS 28 being changed twice within a short space of time. Early application is still permitted.

IFRS 5 Implementation issues

The IASB considered various IFRS 5 issues that the IC has discussed but not yet resolved. The IASB decided that the issues should be divided into those that could be considered in the short term and those that could be considered in the medium to longer term. A reference to the medium- to longer-term issues will be included in the Request for Views for the forthcoming Agenda Consultation. The issues identified for possible agenda decisions will be discussed by the IC at its next meeting.

Clarification of the scope of IFRS 12

The IASB discussed whether the disclosure requirements in IFRS 12 should apply to interests that are classified as held for sale or discontinued operations in accordance with IFRS 5.

The Board observed that the objective of IFRS 12 would apply to an entity's interests in other entities regardless of their classification as held for sale or discontinued operations. Consequently, the IASB tentatively decided to clarify the scope of IFRS 12 and will propose an amendment in connection with the 2014-2016 Annual Improvements Cycle (ED expected in Q4 2015).

Fair value Measurement

The IASB discussed how to progress with PxQ. Further research should be undertaken with respect to the fair value measurement of investments in subsidiaries, associates and joint ventures that are quoted in an active market. The IASB also decided that there should be further research on the measurement of the recoverable amount of cash-generating units on the basis of fair value less costs of disposal when the cash-generating unit is an entity that is quoted in an active market.

IFRS 3 post implementation review

The IASB published their feedback statement on IFRS 3 as part of the post implementation review. The statement summarises comments received from public consultation on the standard and highlights a number of common themes. It has identified four projects which will be taken onto the research agenda:

1) Effectiveness and complexity of testing goodwill impairment (review of IAS 36)

2) Subsequent accounting for goodwill (impair vs amortise)

3) Challenges in applying the definition of a business (business vs asset)

4) Identification and fair value measurement of intangible assets such as customer relations and brand names.

There were 8 other common themes identified but these were given a lower priority. These range from contingent consideration accounting and measurement; accounting for NCI and the usefulness of step acquisitions.

If any of these topics are of particular interest to you they can be highlighted as part of the 2015 agenda consultation. The IASB plans to issue a request for views later in August

Financial Instruments with characteristics of equity

The IASB discussed how the features that might be relevant for the classification of claims (for example, type, timing, amount, priority) could be mapped to different types of assessments.

The staff identified two different types of assessments based on the Conceptual Framework.

- Assessment A: an assessment of the extent to which the entity is expected to have enough economic resources to meet its obligations *as and when they are due*.
- Assessment B: an assessment of the extent to which an entity has sufficient economic resources to satisfy the total claims against the entity *at a point in time*.

During the meeting, the IASB gave some comments, but no decisions were made.

IFRS rejections in short – IAS 2

Yelena Belokovylenko of Accounting Consulting Services examines the practical implications of IFRIC rejections related to IAS 2.

Looking for an answer? Maybe it was already addressed by the experts.

The Interpretations Committee (IC) regularly considers anywhere up to 20 issues at its periodic meetings. A very small percentage of the issues discussed result in an interpretation. Many issues are rejected; some go on to become an improvement or a narrow scope amendment. The issues that are not taken on to the agenda end up as 'IFRIC rejections', known in the accounting trade as 'not an IFRIC' or NIFRICs. The NIFRICs are codified (since 2002) and included in the 'green book' of standards published by the IASB although they technically have no standing in the authoritative literature. This series covers what you need to know about issues that have been 'rejected' by the IC. We go standard by standard and continue with IAS 2 as per below.

IAS 2 does not seem to cause preparers any significant implementation issues – at least, if one judges from the number and nature of requests submitted to the IFRS IC over the last 13 years. During that period there were only four NIFRICs related to IAS 2, two of which related to rebates and discounts.

Cash discounts (August 2002)

The IC was asked to provide guidance regarding how a purchaser of goods should account for cash discounts received.

The IC concluded that no additional guidance was required, since IAS 2 specifically required cash discounts received to be deducted from the cost of the goods purchased.

Consumption of inventories by a service organisation (March 2004)

The IC was asked how the net realisable value of inventories should be determined when inventories are consumed as part of the services rendered. For example, telecom companies often give handsets 'for free' when customers sign a fixed-term contract. The IC noted that this issue is not unique to service providers. It also applies to assessing the recoverability of any asset that is not related to a direct cash inflow. The IC concluded that entities use such inventories to generate a future revenue stream and that they should be measured similarly to other inventories.

Discounts and rebates (Nov 2004)

Another request related to discounts covered three questions:

1) Whether discounts received for prompt settlement of invoices should be recognised as financing income instead of deducting them from the cost of inventories - the IC concluded that it was clear from the requirements in IAS 2 that generally all settlement discounts should be deducted from the cost of inventories.

2) Whether all other rebates should be deducted from the cost of inventory, or some could be treated as revenue, or a reduction in promotional expenses - the IC agreed that those rebates that specifically and genuinely refund selling expenses would not be deducted from the cost of inventories.

3) Whether volume rebates should be recognised only after threshold volumes are achieved, or proportionately where future achievement is assessed as probable - the IC concluded that there was insufficient evidence of diversity in practice to warrant this matter being added to the agenda.

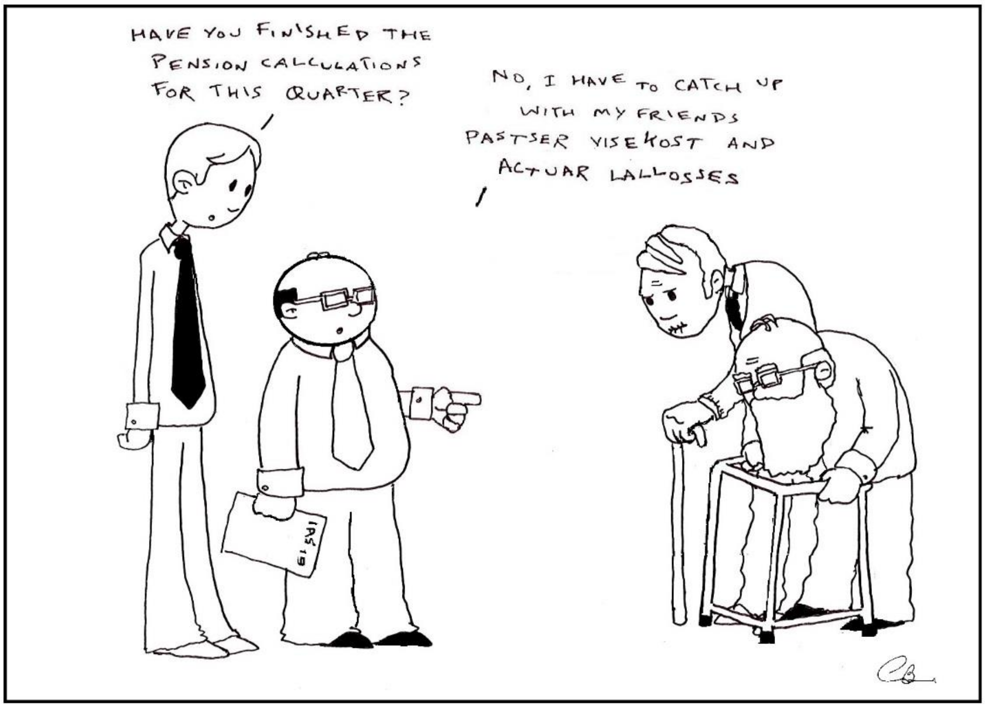
Long-term prepayments in inventory supply contracts (July 2015)

The IC considered the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make significant prepayments to the supplier. The question is whether the purchaser should accrete interest on long-term prepayments by recognising interest income, resulting in an increase in the cost of inventories and, ultimately, the cost of sales. The outreach performed returned very limited results. However, the IC observed that when a financing component is identified in a long-term supply contract of raw materials, that financing component should be accounted for separately. The IC acknowledged that judgement is required to identify when individual arrangements contain a financing component.

Summary of IAS 2 rejections

Topic	Summary conclusion
Cash discounts (August 2002)	The IC considered the accounting for cash discounts received and concluded that no additional guidance was required, since IAS 2 specifically required cash discounts received to be deducted from the cost of the goods purchased.
Consumption of inventories by a service organisation (March 2004)	The IC considered how net realisable value of inventories which are consumed as part of the services rendered should be determined. The IC concluded that the entities use such inventories to generate a future revenue stream and they should be measured similarly to other inventories.
Discounts and rebates (November 2004)	The IC considered three issues related to discounts and rebates. The IC rejected two of them on the grounds of sufficient guidance available in IAS 2 and the third on the grounds of insufficient evidence of diversity in practice. See further discussion above.
Long-term prepayments in inventory supply contracts (July 2015)	The IC considered whether interest should be accreted on long-term prepayments by recognising interest income, resulting in an increase in the cost of inventories and, ultimately, the cost of sales. The IC observed that when a financing component is identified in a long-term supply contract of raw materials, that financing component should be accounted for separately.

The bit at the back.....



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