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IFRS news

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IASB proposes deferral and continues to look at clarifications

The IASB has proposed moving the effective date of IFRS 15 back by one year to 1 January 2018. An exposure draft on the effective date is expected in May 2015 followed by an exposure draft on other clarifications in Q3 2015.

The IASB has proposed to defer the effective date of IFRS 15 by one year to 1 January 2018. The IASB has finally answered (or offered an answer) to one of the most frequently asked questions about the new revenue standard as of late: the proposal will retain the option for entities to early adopt the standard.

Many were not surprised by the IASB's decision, especially in light of the FASB vote on 1 April also proposing a deferral of the effective date by one year.

The proposals are subject to both boards' due process requirements, which include a period for public comment. The IASB is expected to release an ED for comment later this month with a short comment period to allow the boards to finalise their decisions in July.

The reasons

The IASB decided that the proposed deferral was necessary to provide adequate time to effectively implement the new revenue standard. The IASB staff cited several reasons to support the deferral, including:

- maintaining the same effective date as US GAAP;
- providing entities with sufficient time to implement any amendments to the standard that might be proposed;
- recognising the delay in publication of the final standard (in May 2014 rather than in 2013); and
- allowing preparers and auditors adequate time to resolve implementation issues.

Implementation of the new standard will be a significant undertaking for many entities. The proposed delay does not mean time for pencils down. The earlier implementation issues are identified, the more likely something can be done to address them.

Other implementation issues

The IASB and FASB continue to discuss implementation issues related to the new revenue standard. The boards were aligned on the need to address stakeholder feedback on licences, performance obligations and certain practical expedients on transition, but did not agree on the approach.

The IASB is expected to recommend more limited clarifications, while the FASB changes will be more extensive.

The FASB has also decided to propose changes in other areas – for example, guidance on collectability and non-cash consideration, and new practical expedients for shipping and handling services and presentation of sales taxes collected from customers. The joint discussions are expected to continue in the coming months.

One big issue that remains in play is principal versus agent. Both the IASB and FASB are still considering potential clarifications.

The IASB plans to expose a single package of proposed amendments later this year. The clarifications proposed by the FASB are likely to be released for public comment in batches, with the first proposal expected during the second quarter of 2015. For more information, see 'InTransition' available on Inform.

Employee benefits back in the spotlight

Richard Davis from Accounting Consulting Services brings us up to speed on renewed attention at the IASB on employee benefits.

The IASB has finally started discussions on the long awaited research project on pensions. Employee benefits continues to be a source of questions to the Interpretations Committee (IC) even though IAS 19 was last amended in 2011.

Many of the issues getting recent attention are about measurement, for example, contribution based promises. This is no surprise as the project to amend IAS 19 in 2011 was restricted in scope and specifically did not address measurement. Many comment letters, not to mention a few Board Members, expressed a view that measurement needs to be addressed next.

Where are we today?

Defined benefit or defined contribution

There are currently two measurement models; defined contribution plans and everything else (otherwise known as defined benefit). These measurement models are two ends of the spectrum. Employee benefit plans are changing so that one plan might encompass features of the whole of that spectrum.

Contribution based promises

This tension around the type of plan and a relevant measurement is demonstrated best in the discussions about contribution based promises. This was first raised to the IC, then incorporated by the IASB into the 2009 Discussion Paper and most recently has been back on and off the IC's agenda again. Both the IASB and IC have concluded that this problem goes into the 'too difficult' box. There is no disrespect intended in describing their conclusions. Most would agree that 'too difficult' is a good description and point out that the US FASB and EITF appear to have done the same.

Why is it too difficult? The problems seem to arise because there is a gap between the measurement models. Therefore, labelling some plans as either defined contribution or defined benefit can result in an outcome that does not reflect the economics.

The definitive line between defined benefit and defined contribution creates arbitrage – one hard answer versus one easy answer. Adding a third measurement category just geometrically increases the arbitrage and with three definitions, you increase the problem that the definitions might overlap. Unfortunately no one has cracked this formula yet, especially for employee benefits, and this will become more challenging as new structures arise.

The problem seems to be discontinuity of measurement where very similar plans fall into different buckets. Does this mean the answer is a uniform measurement basis that can be applied to the whole spectrum of plan designs? Is that achievable or is it perhaps the Holy Grail of pension accounting?

IFRIC 14

IFRIC 14 also continues to generate debate. The underlying principles are arguably straightforward but there is a range of interpretations adopted in practice. IFRIC 14 arguably creates a third measurement basis – cash! This is because it limits the recognition of an asset based on any of the existing measurement models to the cash that can be recovered from the plan.

Putting measurement aside, IFRIC 14 raises a more fundamental question, one which also arose in some of the Board's recent deliberations. Is the pension plan a separate entity to which the employer has an obligation or is it simply a conduit for the employer's liability to the employees?

IAS 19 appears to be confused. In a defined contribution plan, the employer accounts for an obligation to pay contributions but in a defined benefit plan the employer accounts for an obligation to pay benefits. However, in certain circumstances, IFRIC 14 requires an employer to account for an obligation to pay contributions to a defined benefit plan.

When that happens, IFRIC 14 basically treats a minimum funding requirement as an onerous contract. A 'liability' is recognised for the contributions the employer will pay in respect of past service that create or increase a surplus that cannot be recovered. This seems inconsistent with the model for defined benefit accounting. It also creates more arbitrage. The adjustment between the 'normal' IAS 19 obligation and IFRIC 14 goes through OCI and not profit or loss. Does that sound like a planning opportunity?

What is next?

A very high level look at IAS 19 has raised quite a few questions. For many of them the answer is not obvious and likely to vary between jurisdictions. This leaves me with two thoughts. The research project is likely to take some time and it will almost certainly prove the saying that 'you can't please all of the people all of the time'.

Are there any ways to speed this process up? Unless someone has an all-encompassing measurement model ready, then probably not. I have heard some draw a parallel to insurance accounting, particularly given the effort that has gone into the new model, – an employer's obligation to pay pensions is no different to an insurer's obligation to pay annuities? The prospect of relying on the completion of the IASB's insurance project, however, does not fill me with hope and confidence.

Have you seen the latest PwC IFRS blogs?

Ruth Preedy looks at where goodwill came from and whether the experiment has failed.

Dave Walters describes living the IFRS dream – April fools or reality?

Mary Dolson drags equity accounting 'out behind the barn and kill it with an axe.'

Cannon Street Press

Disclosure initiative

The IASB met to discuss the Principles of disclosure and materiality projects as part of its Disclosure Initiative.

Materiality

The board agreed to move forward with an Exposure Draft of a proposed Practice Statement *Application of materiality to financial statements*. The IASB tentatively decided to address any proposed amendments or clarifications to the definition of materiality in a general disclosure Standard (such as IAS 1 or a replacement Standard).

Principles of Disclosure

Aggregation and summarisation

The IASB tentatively decided to propose additional guidance on:

a. what items should be separately presented in the financial statement or the notes; and
b. how much detail should be disclosed in the notes.

Content of the notes

The IASB tentatively decided that a general disclosure Standard should include a description of the role of the notes and a central set of disclosure objectives.

Drafting of disclosure requirements

The IASB tentatively decided to field test a proposed new approach to drafting the disclosure requirements for Standards to include it in the Principles of Disclosure Discussion Paper, with particular reference to IAS 16 and IFRS 3.

The field tests should be performed with preparers, auditors, regulators and users in different jurisdictions.

Next steps

At its May 2015 meeting the IASB will continue its deliberations.

Annual improvements 2014-2016

The IASB confirmed that it will propose the following two amendments in the 2014-2016 Annual improvements cycle:

- IFRS 1: The amendment proposes to delete some of the short-term exemptions in Appendix E of IFRS 1.
- IAS 28: This amendment clarifies that measuring investees at fair value through profit or loss is an investment-by- investment choice.

An exposure draft is expected in Q3 of 2015.

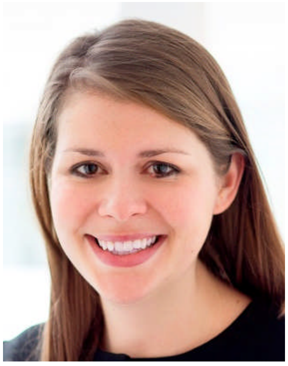
Fair value of quoted investment

The IASB has begun redeliberations on their Exposure Draft, Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value.

The majority of respondents supported the view that the unit of account should be the investment as a whole rather than the individual instruments making up the investment. They also therefore hold the view that the quoted price multiplied by the quantity (that is, P x Q) is not the appropriate measurement basis.

In April, the IASB decided against including an example in IFRS 13 on the portfolio exemption. The IASB will continue the discussions on the remaining aspects of the project in future meetings.

Know your IFRS 'ABC': Z is for Zoos… not in the scope of IAS 41, but what is?



Ruth Preedy from PwC's Accounting Consulting Services examines the scope of IAS 41, a standard that even the most experienced accounting experts don't know much about.

I know that we are not ending our ABC's series on a high note. I admit that 'z' for zoos is a stretch. We are however completer finishers and the thought of two pages on zero coupons bonds seemed worse.

And if there is no other reason to talk about IAS 41, it is a standard that provides the most opportunity for a few jokes and puns. However, sadly there is no monkey in this article because zoo animals are outside the scope of IAS 41, as I will pick up later.

IAS 41 is a short standard with a wide scope and a significant impact on those entities within its scope. It applies to most entities that grow or plants or rear animals (biological assets) for profit. To complicate things further, the IASB amended the scope of IAS 41 in June 2014.

And the scope is important. Assets in the scope of IAS 41 are accounted for at fair value less costs to sell with remeasurements going to the income statement. This could create volatility and practical challenges.

Estimating fair value can be complex and, especially for longer lived assets, can be difficult.

Basics

What is the scope of IAS 41?

Scope is often one of the hardest aspects of applying the accounting standards. One might think that the scope of a standard titled 'Agriculture' would be straight forward – I have animals so I am within scope but actually it is harder than you think. But it is not that simple.

IAS 41 applies to agricultural activity which relates to biological assets, agricultural produce and government grants.

'Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce, or into additional biological assets.'

Based on this definition, to fall within the scope of IAS 41 you need:

To be in scope:	*What does this mean?*
1) Management of biological transformation	There must be management of growth degeneration, production, and procreation. If there is no management of this process the asset is not in the scope of IAS 41.
2) Transformation of a biological asset	This is a living plant or animal.
3) The asset is sold or converted to produce	Produce is the output from the living plant or animal at the point of harvest. For example milk from a cow or grapes on a vine. The asset itself must be grown for sale or to bear produce.

Currently, IAS 41 divides biological assets into four main categories: they can be a living plant or animal and these plants or animals can be consumable or a bearer.

- Consumable assets: Consumable assets are those which are to be harvested as agricultural produce or sold as biological assets - that is, once harvested they are gone (for example wheat and cattle for beef).

- Bearer assets: Bearer assets are used to bear produce over their productive lives (for example apple trees bear apples and dairy cows produce milk)

Why not Zoos?

So why are zoos not included in the scope? The animals are living (or at least we hope so) but there is no management of the transformation of the biological assets for sale. Natural breeding that takes place is not a managed activity and is incidental to the main activity of providing a recreational facility.

Ocean farming is also not in the scope of IAS 41 as the ocean is unmanageable. Managing the growth of fish on a farm for subsequent slaughter or sale, however, is agricultural activity within the scope of IAS 41.

What else is out of scope?

Agricultural produce, once harvested, becomes inventory and is accounted for in accordance with IAS 2, 'Inventory'. Land related to agricultural activity is outside the scope of IAS 41. If it is owned by the entity it will be in the scope of IAS 16 'Property, Plant and Equipment'. Land rented by the entity from a third party will be a lease and therefore in the scope of IAS 17 'Leases'.

What is changing?

In 2014 the IASB agreed to amend the scope of IAS 41. The amendment moves bearer plants from the scope of IAS 41 into the scope of IAS 16.

Bearer plants are living plants that are used to grow produce over their productive lives exceeding one period. For example, in an oil palm plantation, the trees that produce fruit are bearer plants. However, the fruit bunches growing on the trees are agricultural produce. Animals and consumer plants remain in the scope of IAS 41. Produce growing on the bearer plants also remains in the scope of IAS 41. This means that an apple tree will be accounted for under IAS 16 but the apples growing on that tree will be accounted for under IAS 41.

This amendment is effective from 1 January 2016 but early adoption is permitted. If you want more information about the amendment please see Amendments to classification of bearer plants.

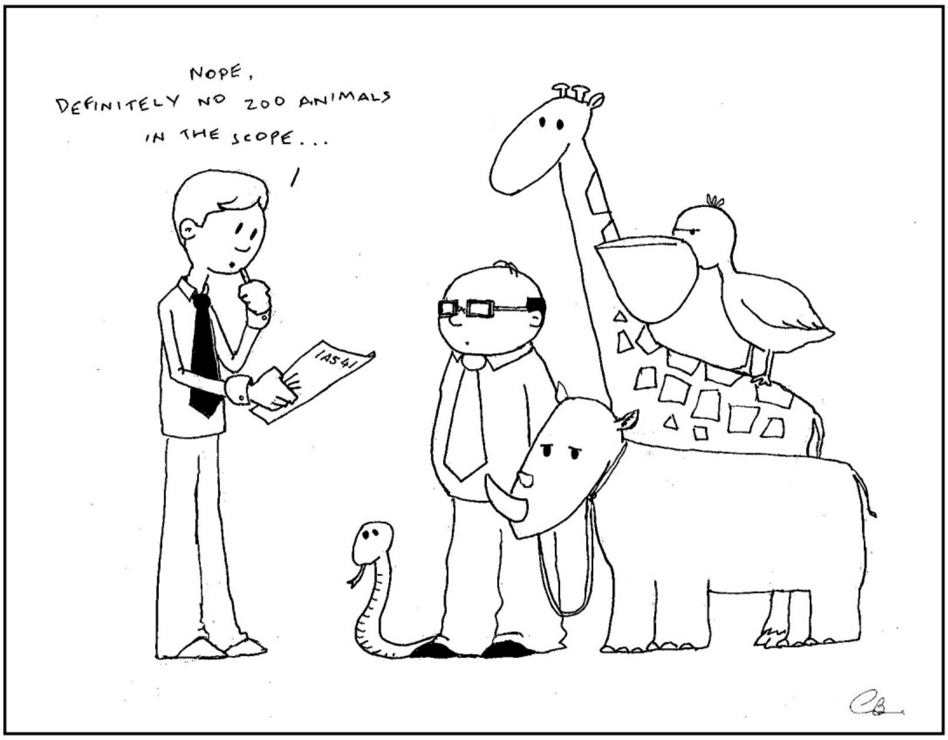
Why does it matter?

Assets in the scope of IAS 41 are accounted for initially and subsequently at fair value less costs to sell. For a short term asset with readily available market data this accounting is straight forward. For longer lived assets, a cash flow model is required and future projections need to be estimated. Movements in fair value year on year are presented in the income statement, therefore agricultural companies can have a fairly volatile income statement.

Bearer plants in the scope of IAS 16 will be measured like a self-constructed asset. Bearer plants are initially recognised at accumulated cost. When the asset is in the location and capable of being operated, depreciation will begin and the asset will be tested for impairment under IAS 36. The point at which depreciation begins is subjective and is likely to depend on the type of plant. This judgment should be clearly disclosed.

Now you know everything that ever wanted to know (and maybe more) about the scope of IAS 41.

The bit at the back.....



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