RSM INSIGHT: December Year-end Accounting Reminders IFRS

by RSM IFRS Advisory Committee

December 2021

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

RSM INSIGHT: December Year-end Accounting Reminders – IFRS
1. Introduction....3
2. Key Topics and Reminders (effective on or after January 1, 2021)....3
Interest Rate Benchmark Reform – Phase 2....3
Covid-19-Related Rent Concessions Beyond June 30, 2021....3
Hyperinflationary Economies Reminder....4
3. New Standards and Amendments (effective from January 1, 2022 to January 1, 2023)....4
4. IFRS Interpretations Committee Topics....7
IFRS Interpretation Committee: Agenda Decisions in 2021....7
IFRS Interpretation Committee: Other Topics Discussed in 2021....11
5. RSM Publications and Articles....13

December year-end accounting reminders – IFRS

1. Introduction

This newsletter will discuss reporting requirements as of December 31, 2021. The first section will discuss key topics and reminders that financial statement preparers and reviewers should consider in preparing their statements.

The second section will discuss standards and interpretations that are not effective as at December 31, 2021 but should be disclosed consistent with paragraph 30 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

The third section will discuss the topics discussed at the IFRS Interpretations Committee ("IFRIC") during this fiscal year.

2. Key Topics and Reminders (effective on or after January 1, 2021)

Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB issued Phase 2 of its project '*Interest Rate Benchmark Reform ("IBOR reform")*'. The Phase 2 amendments to IFRS 4, Insurance Contracts, IFRS 7, Financial Instruments: Disclosure, IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 16, Leases, address the financial reporting impacts due to the interest rate benchmark reform, including the replacement of an IBOR benchmark rate with an alternative benchmark rate. Phase 2 is effective for financial reporting periods beginning on or after January 1, 2021. Phase 1 of this project was issued in September 2019, and was effective in the prior fiscal period.

The changes to the standards above due to the Phase 2 amendment are summarized as follows:

- Modifications of financial assets, financial liabilities, and lease liabilities due to this reform have been provided a practical expedient, requiring entities to only account for the modification by updating the effective interest rate utilized in the present value calculation, rather than applying the full accounting treatment for modifications under IFRS 9, Financial Instruments.
- Hedge accounting will be allowed to continue under these amendments, however modifications in the hedging relationship to the hedged risk, the hedging instrument or the hedged item will need to occur to reflect the IBOR reform. An entity will need to ensure that if the hedging relationship is amended, all qualifying criteria to apply hedge accounting are still met.
- Reform-related disclosures will be required to describe the entity's risk management process specific to the IBOR reform, the progress in the entity's transition to the new rate, as well as other disclosures including quantitative information on the specific instruments, derivative and non-derivative, that are impacted by the benchmark reform.
- IFRS 4, Insurance Contracts, was amended to require insurers to account for any modifications associated with the IBOR reform when they would normally be provided an exemption from applying IFRS 9, *Financial Instruments*.

This amendment is to be applied retrospectively, however the restatement of prior periods is not required if doing so requires the benefit of hindsight.

Covid-19-Related Rent Concessions Beyond June 30, 2021

On March 31, 2021, the International Accounting Standards Board (IASB) published *'Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)*', which extends the practical relief provided to lessees from performing lease modification accounting on a COVID-19-related rent concession when certain criteria are met. The original standard amendment was published in May 2020, and the relief originally provided for lease payments due on or before June 30, 2021 has been extended one year to include affected lease payments due on or before June 30, 2022. A lessee shall apply this amendment for annual reporting periods beginning on or after April 1, 2021, however early adoption is permitted.

Hyperinflationary Economies Reminder

Countries which are considered hyperinflationary based on inflation data collected by the International Monetary Fund (IMF) World Economic Outlook (WEO) currently include Argentina, Iran, Lebanon, Sudan, South Sudan, Venezuela, Suriname, Yemen and Zimbabwe.

Furthermore, Liberia, Haiti, and Angola remain on the watch list for 2021. Special consideration should be applied when consolidating or applying equity method accounting for any subsidiary, associate, or joint venture from the above listed countries.

3. New Standards and Amendments (effective from January 1, 2022 to January 1, 2023)

In accordance with IAS 8 paragraph 30, entities are required to disclose new IFRS standards that have been issued and are not yet effective.

The below table represents standards and amendments effective for annual periods beginning January 1, 2022 and January 1, 2023. Early application of the amendments and new standards is permitted with note disclosure.

Effective January 1, 2022	
IFRS 3 – Reference to Conceptual Framework	This amendment issued May 2020 to IFRS 3, Business Combinations, updated the reference to the revised Conceptual Reporting Framework for what constitutes an asset and a liability. An exception was added in the Standard for situations where an entity should refer to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, for certain types of liabilities and contingent liabilities.
IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use	This amendment issued May 2020 prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related costs in profit or loss.
IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract	This amendment issued May 2020 specifies which costs a company includes when assessing whether a contract will be loss-making or onerous. The ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. These costs can either be incremental (i.e., a direct cost such as material or labour) or can be an allocation of other costs directly related to fulfilling a contract, such as depreciation of a fixed asset.
Annual Improvements (2018-2020 Cycle)	These annual improvements issued in May 2020 include the following minor amendments to the IFRS standards. - ***IFRS 1 – Subsidiary as a first-time adopter.*** A subsidiary can elect to measure the cumulative translation differences for all foreign operations at the carrying amount that is included in the parent’s consolidated financial statements, based on the parent’s date of IFRS transition, if no adjustments were made for consolidation procedures and for the effects of the business combination. - ***IFRS 9 – Fees included in the 10% test for financial liability de-recognition***. In the de-recognition of a financial liability, the fees paid net of fees received, as included in the discounted cash flow test, are determined by including only the fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. If there is a modification and extinguishment of the financial liability, any costs or fees

	incurred are recognized as part of the gain or loss on extinguishment. If there is no extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the financial liability. - ***IAS 41 – Taxation in fair value measurements.*** When determining the fair value of its biological assets, an entity is now able to use post-tax cash flows and a post-tax discount rate in its present value model, as the requirement to exclude taxation cash flows has been removed in the amended guidance.
Effective January 1, 2023	
IAS 1, Presentation of Financial Statements – Classification of current and non-current liabilities	This amendment was issued in January 2020, and is effective for annual reporting periods beginning on or after January 1, 2023 (deferred one year from January 1, 2022). The amendment: - Creates a new section on the concept of settlement for the purpose of classifying a liability as current versus non-current. A settlement refers to a transfer to the counterparty that results in the extinguishment of the liability that can either be in cash, another economic resource, or the entity's own equity instruments; - Clarifies that the classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period, and instead focuses on the rights to defer settlement that have substance and exist at the end of the reporting period; and - Clarifies that if the right to defer settlement is subject to the entity complying with specified conditions (i.e., covenants), the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The IASB is currently deliberating on additional amendments to incorporate stakeholder feedback on the language above, as well as whether to further defer this amendment until January 1, 2024. These decisions have not yet been finalized.
IAS 1, Presentation of Financial Statements – Disclosure of accounting policies	This narrow-scope amendment was issued in February 2021, and is effective for annual reporting periods beginning on or after January 1, 2023. The following amendments were made to the standard: - Entities are required to disclose their **material** accounting policies, rather than their **significant** accounting policies; - Guidance was provided on how an entity can identify material accounting policies, focusing on the nature of a policy rather than its monetary value; and - Clarification that a policy is material if it is required by users of the financial statements to understand other material information in the statements, as well as providing precedence of material accounting policy information over immaterial accounting policy information. The IFRS Practice Statement 2 – *Making Materiality Judgements* was also updated to provide guidance on how to apply the concept of materiality to accounting policy disclosures.
IAS 8, Accounting policies, changes in accounting estimates and errors - Distinguish changes in accounting policies from changes in accounting estimates	This narrow-scope amendment was issued in February 2021, and is effective for annual reporting periods beginning on or after January 1, 2023. This amendment clarifies how a company should distinguish between a change in accounting estimate and a change in accounting policy and should be applied prospectively, with early application permitted.

	The amendment clarifies the following matters: - The definition of an "accounting estimate" has been refined, including a note that an entity will develop an accounting estimate if an accounting policy requires a financial statement item to be measured when uncertainty is present; - New information or developments, changes in inputs, or changes in measurement techniques are treated as an accounting estimate change if they are not because of a correction of an error; and - A change in estimate can affect the current period's profit or loss, or both the current and future period. If the effect of the change relates to the current period, an entity would recognize the impact in the current period. If the change impacts a future period, an entity will recognize the impact in a future period.
IAS 12, Income Taxes	In May 2021, the IASB issued targeted amendments to IAS 12 to specify how a company should account for deferred tax on transactions such as leases and decommissioning obligations. The standard had allowed, in specific circumstances, for an entity to apply the recognition exemption in paragraphs 15 and 24. The recognition exemption had allowed an entity to forgo calculating deferred tax when recognizing a transaction that gives rise to equal taxable and deductible temporary differences on initial recognition. However, there was uncertainty in practice about whether this exemption applied in circumstances where the company is recognizing both an asset or liability in the same transaction that gives rise to equal taxable and deductible temporary differences, such as a right-of-use asset and lease obligation under IFRS 16. The amendment clarifies that the exemption would not apply in those situations, and deferred tax should be recognized on those transactions.
IFRS 17, Insurance contracts	IFRS 17, Insurance Contracts, replaces IFRS 4, Insurance Contracts effective for periods beginning on or after January 1, 2023. Early application is permitted if the entity has applied IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments. The objective of the standard, per IFRS 17.1, is to establish principles for the recognition, measurement, presentation, and disclosure of insurance contracts that are within the scope of IFRS 17.

4. IFRS Interpretations Committee Topics

IFRS Interpretation Committee: Agenda Decisions in 2021

Topic	Relevant IFRS Standard	Question Posed and Agenda Decision
Costs necessary to sell inventories	IAS 2, Inventory	***Question posed***: Which costs should an entity include as part of the estimated costs necessary to make a sale when determining the net realizable value of inventories, in accordance with paragraph 6 of IAS 2, Inventory? The Committee concluded that IAS 2 does not allow an entity to restrict its estimate of the costs necessary to make the sale to only incremental costs. An entity should include all costs necessary to make the sale in the ordinary course of business when determining the net realizable value of inventories and should exercise judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.
Preparation of financial statements when an entity is no longer a going concern	IAS 1, Presentation of financial statements IAS 10, Events after the reporting period	***Questions posed***: When an entity is no longer a going concern, can it: 1. Prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and had not previously prepared financial statements for those periods; and 2. Restate comparative information for the preceding period to reflect the basis of accounting used in preparing the current period's financial statements if it had previously prepared financial statements for that period on a going concern basis? When answering question 1, the Committee concluded that an entity that is no longer a going concern cannot prepare financial statements (including prior period financial statements not yet authorized for issuance) on a going concern basis. This is consistent with the principles and requirements in IAS 10. When answering question 2, the Committee concluded that entities would generally not restate comparative information when they first prepare financial statements on a basis that is not a going concern. IFRS is silent on the matter of restating comparative information for financial statements prepared on a non-going concern basis, however there is no evidence that there is a diversity in practice with the application of IFRS in this respect, as entities have not been restating comparative information when first preparing financial statements on a non-going concern basis. Therefore, the Committee chose not to comment further on this fact pattern.

Accounting for warrants that are initially classified as liabilities.	IAS 32, Financial instruments: presentation	***Question posed***: If a warrant that was issued by an entity and initially recognized as a liability provides the right to buy an entity's own equity instruments for an exercise price fixed at a future date, would the entity have to subsequently reclassify the warrant as equity since the exercise price is subsequently fixed? The Committee observed that IAS 32 does not contain general requirements for the reclassification of financial liabilities and equity instruments after initial recognition when the contractual terms remain unchanged. The Committee concluded that the matter submitted is, in isolation, too narrow for the Committee to efficiently resolve within the confines of the existing Standards and Conceptual framework. Instead, they requested that the International Accounting Standards Board ("IASB" or "Board") consider the matter as part of its discussions on the Financial Instruments with Characteristics of Equity (FICE) project. For this reason, the Committee decided not to add a standard setting project.
Configuration or Customisation Costs in a Cloud Computing Arrangement (originally presented to IFRIC in December 2020).	IAS 38, Intangible assets IFRS 15, Revenue from Contracts with Customers IAS 1, Presentation of Financial Statements	***Question posed***: When accounting for the cost of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement, does the customer recognise such costs as: (a) an intangible asset, (b) a prepayment asset, or (c) an expense when incurred? The Committee noted that in the SaaS arrangement described in the submission, the customer would often not recognise an intangible asset in accordance with IAS 38 as it does not have the power to obtain future economic benefit from the software. If a customer does not recognize the costs incurred as an intangible asset, the entity must apply IAS 38 paragraphs 68-70 to account for the associated costs in the arrangement as an expense when it receives the configuration or customisation services. However, IAS 38 does not include requirements on how an entity should determine when the supplier performs those services per the contract The entity should refer to IFRS 15, which deals directly with issues similar to those faced by the customer in determining when the supplier performs the configuration or customisation services in accordance with the contract. When the contract to deliver the configuration or customisation services to the customer is with the supplier of the application software: - If the configuration or customisation services are distinct, the customer should recognise those costs when the services occur. - If the services are not distinct, the customer should recognize the costs as the supplier provides access to the software over the contract term. The contract to deliver the configuration or customisation services to the customer might be with a third-party supplier. In that case, in applying IAS 38 paragraphs 69-69A and determining when the third-party supplier performs the configuration or customization services in accordance with the contract to deliver them, the customer recognises the costs as an expense when the third-party supplier configures or customises the application software. IAS 1 provides guidance on how the customer should disclose its accounting policy for configuration or customisation costs, when that disclosure is relevant to the understanding of the financial statements. Please refer to the RSM Insight article published in **Section 5**.

Non-refundable value-added tax ("VAT") on lease payments	IFRS 16, Leases	***Question posed***: How should a lessee account for any non-refundable VAT charged on lease payments? Research that was conducted by the Committee provided limited evidence that non-refundable VAT on lease payments is material for lessees affected. Research further indicated that there is little diversity in the way lessees account for non-refundable VAT on lease payments. Most respondents believe that VAT payments would not meet the definition of a lease payment to the lessor, as they are not payments in exchange for the right to use the underlying asset associated with the lease. Therefore, the Committee has not yet obtained evidence that the matter has widespread effect, or that the matter is expected to have a material impact on the entities that are affected. For this reason, the Committee decided not to add a standard setting project. Please refer to the RSM Insight article published in **Section 5,** which provides further guidance on the preferred accounting treatment options for these transactions.
Attributing benefit to periods of service. (originally presented to IFRIC in December 2020).	IAS 19, Employee benefits	***Question posed***: Based on the circumstances as outlined in the defined benefit plan, which periods of service should an entity attribute to the retirement benefit? The terms of the plan are as follows: 1. employees are entitled to a retirement benefit only when they reach the retirement age of 62 provided they are employed by the entity at that date; 2. the amount of the retirement benefit is calculated as one month of final salary for each year of service before the retirement date; 3. the retirement benefit is capped at 16 years of service; and 4. the retirement benefit is calculated using only the number of consecutive years of employee service immediately before retirement. The Committee concluded that, based on the fact pattern presented for the defined benefit plan illustrated in this discussion, the entity should attribute a retirement benefit each year from the age of 46 to the age of 62, representing 16 years of service. In circumstances where employment commences on or after the age of 46, the retirement benefit should be attributed from the date that the employee first renders service to the age of 62. This is consistent with the guidance provided in IAS 19 paragraphs 70-74, as well as the outcome set out in the first part of IAS 19 Example 2 illustrating the concepts in paragraph 73.
Hedging variability in cash flows due to real interest rates (originally presented to IFRIC in December 2020).	IFRS 9, Financial instruments	***Question posed***: Can a hedge of the variability in cash flows arising from changes in the real interest rate, rather than the nominal interest rate, be accounted for as a cash flow hedge? The Committee observed that cash is, by nature, denominated in nominal terms. Therefore, to meet the requirements in IFRS 9 for a cash flow hedge designation, the variability of individual cash flow streams attributed to the designated risk component needs to be separately identifiable in currency or nominal terms. The Committee therefore concluded that changes in cash flows on a floating rate instrument arising from the real interest rate risk component cannot be identified independently of changes in cash flows arising from other risk components. Consequently, the real interest rate risk component cannot be identified as a risk component as described in paragraph 6.3.7 of IFRS 9 in a cash flow hedge. It is not an eligible hedged item as required by paragraph 6.4.1 of IFRS 9. Therefore, this transaction should not be accounted for as a cash flow hedge.

IFRS Interpretation Committee: Other Topics Discussed in 2021

Topic	Relevant IFRS Standard	Date of Meeting
Sale and Leaseback of an Asset in a Single-Asset Entity (originally presented to IFRIC in September 2020). *Question posed*: In a situation where an entity loses control of a subsidiary and transfers the building to a third party while leasing the building back, should the entity in its consolidated financial statements apply the sale and leaseback requirements in IFRS 16, and therefore recognize only the amount of gain that relates to the rights transferred back to a third party, or look for guidance in another standard?	IFRS 10, Consolidated financial statements IFRS 16, Leases	February 2, 2021
Classification of debt with covenants as current or non-current (originally presented to IFRIC in December 2020). *Question posed*: How does an entity determine whether it has 'the right to defer settlement' when a long-term liability is subject to a condition (such as a debt covenant) and the borrower's compliance with the condition is tested at a date after the end of the reporting period?	IAS 1, Presentation of financial statements	April 20, 2021
Targeted Longer-Term Refinancing Operations ("TLTRO") III transactions *Question posed*: How should banks account for the European Central Bank's TLTRO program, and specifically how should banks address the diversity of application guidance between IFRS 9 and IAS 20? The submission asked specific questions on how to account for these loans, and which guidance to apply.	IFRS 9, Financial instruments IAS 20, Accounting for government grants and disclosure of government assistance	June 8-9, 2021
Power Purchase Agreements ("PPA") in a Gross Pool Electricity Market *Question posed*: When applying paragraph B9(a) of IFRS 16, does the customer have the right to obtain substantially all the economic benefits from use of an identified asset if they are an electricity retailer accounting for a PPA over the 20-year term of the contract in a gross pool electricity market?	IFRS 16, Leases	June 8-9, 2021
Lease Liability in a Sale and Leaseback Discussion related to the exposure draft "Lease Liability in a Sale and Leaseback" published in in November 2020. The Committee was asked to comment on the possible project direction.	IFRS 16, Leases	September 14-15, 2021
Demand Deposits with Restrictions in Use *Question posed*: Should an entity include a demand deposit as a component of cash and cash equivalents in its statement of cash flows and financial position if the terms and conditions of the demand deposit do not prevent the entity from accessing the amounts held in the demand deposit, even if using the cash held for any purpose other than indemnifying the buyer would result in a breach of contract?	IAS 7, Statement of cash flows	September 14-15, 2021
Cash Received via Electronic Transfer as Settlement for a Financial Asset *Question posed*: Is it acceptable for the entity to derecognise a trade receivable and recognise cash on the date the cash transfer is initiated (31 December 20X0), rather than the date the cash	IFRS 9, Financial instruments	September 14-15, 2021

transfer is settled (2 January 20X1), given that there could potentially be a delay between submission and settlement in some payment systems?		

5. RSM Publications and Articles

Articles and Insights

Global IFRS Insights

1. RSM INSIGHT: Classification of liabilities as current or non-current-amendments to IAS 1
2. RSM INSIGHT: IFRS 16 - Accounting for VAT on lease payments by lessees
3. Accounting for Cloud Based Software
4. Crypto assets continue on their fast-paced evolution

The aim of this publication is to provide general accounting guidance only and it is not a substitute for professional advice. No responsibility for any errors or omissions nor loss occasioned to any person or organization acting or refraining from acting as a result of any material in this publication can be accepted by the authors or RSM International. You should not act on the basis of the material in this publication without taking professional advice.

RSM International Limited is a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London EC4N 6JJ, United Kingdom. RSM is the brand used by a network of independent accounting and consulting firms, each of which practices in its own right. The network is not itself a separate legal entity of any description in any jurisdiction. The network is administered by RSM International Limited. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM International Association, 2021