

IFRS News

Emerging issues and practical guidance*

Supplement – June 2008

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Improvements to IFRSs 2008

The IASB published the final amendments to its first annual improvements project last month. David Schmid and Avni Mashru highlight the details of the key changes made, the impact of those changes and the effective date. The amended standards that are likely to be of most interest to readers are the changes to IFRS 5, IAS 19, IAS 38 and IAS 39.

The first improvements project saw the Board put forward for consideration 41 amendments to the standards. Seven of the proposed amendments were deemed sufficiently of substance and were sent back for further work; 11 were minor corrections and went through with little comment and no expected impact (see p5). The remaining 24* will have more impact but crossed the finishing line intact. The IASB has confirmed that we should expect to see improvements on a regular basis but not in the volume of this first batch.

“This year’s improvements project was particularly large, as there was a fair amount of catch-up ‘housekeeping’ to do”, said IASB Director of Implementation Activities Tricia O’Malley. “We are unlikely to have such a volume of changes in future. Now we have dealt with the backlog, we think the improvements project is an effective way of ensuring the standards are consistent and properly ‘maintained’.”

Amendments that are categorised as those unlikely to have much impact have an effective date of periods beginning on or after 1 January 2009. All other amendments, with the exception of one, will be effective for periods beginning on or after 1 January 2009, with earlier application permitted. However, not all amendments will require retrospective application and a fair number provide for prospective application.

* Attentive readers will spot that the numbers don’t add up – the proposed amendment to IAS 29 was split into two parts; one is included in the Improvements standard, the other has been included in the ‘needs further work’ category.



David Schmid



Avni Mashru

Standard	Amendments	Practical implications	Effective date
IFRS 5, 'Non-current Assets Held for Sale and discontinued Operations' (and consequential amendment to IFRS 1, 'First-time Adoption')	<ul style="list-style-type: none"> ■ All of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. ■ If the subsidiary described above is a disposal group meeting the definition of a discontinued operation, the relevant disclosures should be made. ■ A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. 	<ul style="list-style-type: none"> ■ Classify as held for sale where a partial disposal results in loss of control. An entity that holds an interest of 51% in a subsidiary, sells 2% of its holding and loses control should follow IFRS 5. ■ All assets and liabilities are classified as held for sale, not just the portion disposed of. ■ Continuing involvement after partial disposal does not prevent classification as a discontinued operation. Partial disposal previously not accounted for under IFRS 5 will now fall within the scope of IFRS 5. Classify as held for sale where a partial disposal results in loss of control. An entity that holds an interest of 51% in a subsidiary, sells 2% of its holding and loses control should follow IFRS 5. 	Periods beginning on or after 1 July 2009 with prospective application from the date IFRS 5 was first applied. Early adoption permitted only if IAS 27(revised) is also early adopted.
IAS 16, 'Property, Plant and Equipment' (and consequential amendment to IAS 7, 'Statement of Cash Flows')	<ul style="list-style-type: none"> ■ Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue. ■ The carrying amount of the asset is transferred to inventories when the asset becomes held for sale. ■ A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. ■ Wording of definition of recoverable amount has been aligned with IAS 36, 'Impairment of Assets' 	<ul style="list-style-type: none"> ■ Proceeds received from subsequent sale of such assets are presented gross as revenue following the amendment; the current standard requires net proceeds to be reported as other income/expense. ■ IFRS 5 does not apply when the asset is transferred to inventories. This may result in a gross-up in revenue and expenses and a switch from investing cash flows to operating cash flows. 	Periods beginning on or after 1 January 2009
IAS 23, 'Borrowing Costs'	<ul style="list-style-type: none"> ■ The definition of borrowing costs has been amended. Interest expense is calculated using the effective interest method defined in IAS 39. 	<ul style="list-style-type: none"> ■ The amendment eliminates inconsistency of terms between IAS 39 and IAS 23. 	Periods beginning on or after 1 January 2009
IAS 27, 'Consolidated and Separate Financial Statements'	<ul style="list-style-type: none"> ■ Where an investment in a subsidiary that is accounted for under IAS 39 is classified as held for sale under IFRS 5, IAS 39 (as opposed to IFRS 5) would continue to be applied. 	<ul style="list-style-type: none"> ■ Investments accounted for under IAS 39 in the separate financial statements of a parent are classified as held for sale. IFRS 5 only applies to investments in subsidiaries that are held at cost. 	Periods beginning on or after 1 January 2009 with prospective application from the date IFRS 5 was first applied
IAS 28, 'Investments in Associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial Instruments: Disclosures')	<ul style="list-style-type: none"> ■ Where an investment in associate is accounted for in accordance with IAS 39 only certain (rather than all) disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32/IFRS 7. ■ An investment in associate is treated as a single asset for the purposes of impairment testing. ■ Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. 	<ul style="list-style-type: none"> ■ Disclosure is significantly reduced. ■ This amendment clarifies and potentially simplifies the accounting for impairment losses. 	Periods beginning on or after 1 January 2009

Standard	Amendments	Practical implications	Effective date
	<ul style="list-style-type: none"> Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. 		
IAS 29, 'Financial Reporting in Hyperinflationary Economies'	<ul style="list-style-type: none"> Amended guidance to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. 	<ul style="list-style-type: none"> Achieves consistency with guidance in other standards. 	Periods beginning on or after 1 January 2009
IAS 31, 'Interests in Joint Ventures (and consequential amendments to IAS 32 and IFRS 7)	<ul style="list-style-type: none"> Where an investment in joint venture is accounted for in accordance with IAS 39, only certain (rather than all) disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32/IFRS 7. 	<ul style="list-style-type: none"> Disclosure is significantly reduced. 	Periods beginning on or after 1 January 2009
IAS 36, 'Impairment of Assets'	<ul style="list-style-type: none"> Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. 	<ul style="list-style-type: none"> The amount of disclosure required when using fair value less costs to sell to calculate the recoverable amount has been increased. 	Periods beginning on or after 1 January 2009
IAS 38, 'Intangible Assets'	<ul style="list-style-type: none"> An asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Advertising and promotional activities includes mail order catalogues. Deletion of wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. 	<ul style="list-style-type: none"> Eliminates diversity in practice. Expenses incurred in printing mail order catalogues, for example, are recognised once the catalogues are printed and not when they are distributed to customers. Eliminates a potential interpretation that the unit of production method is prohibited. Amortisation method reflects the expected pattern of consumption of economic benefits of the asset. 	Periods beginning on or after 1 January 2009
IAS 40, 'Investment Property' (and consequential amendments to IAS 16)	<ul style="list-style-type: none"> Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. 	<ul style="list-style-type: none"> More property under construction will be shown at fair value rather than cost. 	Prospective application for periods beginning on or after 1 January 2009. Earlier application only permitted if the relevant fair value information was determined at the earlier application date.
IAS 41, 'Agriculture'	<ul style="list-style-type: none"> Use of a market-based discount rate where fair value calculations are based on discounted cash flows. 	<ul style="list-style-type: none"> Post-tax rates are more easily available in the market place for estimating fair value. The change also simplifies the calculation of discounted cash flows. 	Prospective application for periods beginning on or after 1 January 2009

Standard	Amendments	Practical implications	Effective date
	<ul style="list-style-type: none"> ■ Removal of the prohibition on taking into account biological transformation when calculating fair value. 	<ul style="list-style-type: none"> ■ Market participants assume normal biological transformation; this is therefore taken into account when calculating fair value using a discounted cash flow model. 	
Liabilities			
IAS 19, 'Employee Benefits'	<ul style="list-style-type: none"> ■ A plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment. ■ An amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. ■ Definition of return on plan assets amended to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. ■ The distinction between short term and long term employee benefits is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. ■ Deletion of guidance that states IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. 	<ul style="list-style-type: none"> ■ A number of clarifications in definitions and eliminations of inconsistencies should ease application of the standard. ■ Makes IAS 19 and IAS 37 consistent. 	Periods beginning on or after 1 January 2009 with the exception of amendments to the guidance on curtailments and negative past service costs, which should be applied prospectively to any benefit changes occurring on or after 1 January 2009
IAS 20, 'Accounting for Government Grants and Disclosure of Government Assistance'	<ul style="list-style-type: none"> ■ The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received. ■ The benefit is accounted for in accordance with IAS 20. 	<ul style="list-style-type: none"> ■ Entities are required to quantify and report the benefits. 	Prospective application to government loans received on or after 1 January 2009
Financial assets and liabilities			
IAS 39, 'Financial Instruments: Recognition and Measurement'	<ul style="list-style-type: none"> ■ Clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where: <ul style="list-style-type: none"> – A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. – Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4. ■ The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that 	<ul style="list-style-type: none"> ■ Clarification makes it possible to have movements into or out of the fair value through profit or loss category after initial recognition. ■ The amendment addresses these interpretations by clarifying that reclassifications are not permitted, but there may be changes in circumstance that lead to the commencement or cessation of fair value through profit or loss measurement. 	Periods beginning on or after 1 January 2009. Specifically, amendments to the guidance on fair value through profit or loss classification should be applied in the same manner as the 2005 fair value option amendment to IAS 39 was applied.

Standard	Amendments	Practical implications	Effective date
	<p>are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.</p> <ul style="list-style-type: none"> ■ Removal of a segment as an example of what may be considered a party external to the reporting entity. ■ When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. 	<ul style="list-style-type: none"> ■ The guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity. ■ IAS 39 currently cites a segment as an example of a reporting entity. ■ Deletion of this example is a result of this being inconsistent with IFRS 8, 'Operating Segments' which requires disclosure based on information reported to the chief operating decision maker. ■ This addresses a current inconsistency as to whether the original or a revised effective interest rate is applied. It clarifies that the revised effective interest rate is applied. 	
Financial statement presentation			
IAS 1, 'Presentation of Financial Statements'	Clarification that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 are examples of current assets and liabilities respectively.	Financial assets and liabilities that are classified as held for trading are classified as current or non-current in accordance with IAS 1.	Periods beginning on or after 1 January 2009

Amendments that are unlikely to affect accounting treatment for most preparers

IFRS 7, 'Financial Instruments: Disclosures'

The amendment addresses a potential conflict between the implementation guidance in IFRS 7 and guidance contained in IAS 1. The current wording in paragraph IG13 of IFRS 7 could suggest that an entity is permitted to present total interest income and expense as a net amount within finance costs. In contrast, IAS 1 would preclude interest income and expense being reported in this way. Accordingly, the guidance in paragraph IG13 has been amended to remove the possibility for such an interpretation.

IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'

The amendment clarifies that guidance that is not an integral part of a standard is intended to assist entities in application of standards rather than containing requirements that must be followed.

IAS 10, 'Events after the Reporting Period'

The amendment reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.

IAS 18, 'Revenue'

The amendment replaces the term 'direct costs' with 'transaction costs' in respect of costs incurred in originating a loan. This achieves consistency with IAS 39.

IAS 20, 'Accounting for Government Grants and Disclosure of Government Assistance' and IAS 29, 'Financial Reporting in Hyperinflationary Economies'

The terminology in both these standards has been amended in order to achieve consistency with other standards. For example, in IAS 20, references to 'taxable income' have been replaced with 'taxable profit or loss'.

IAS 34, 'Interim Financial Reporting'

The standard currently states that basic and diluted earnings per share must be presented in an interim report. The amendment clarifies that this is only the case when the entity is within the scope of IAS 33, 'Earnings per Share'.

IAS 40, 'Investment Property'

An amendment to the guidance on investment property held under a lease clarifies that if a valuation obtained for such an investment property is net of all expected payments, any recognised lease liability must be added back in order to determine the carrying amount of the investment property under

the fair value model. A further amendment also brings wording included in the standard on changes in accounting policy in line with IAS 8.

IAS 41, 'Agriculture'

The standard currently refers to 'point-of-sale costs'. Given that this term is not used in any other standard, the amendment replaces this term with 'costs to sell'. There are also resulting consequential amendments to IAS 2, IAS 36 and IFRS 5 to update references in those standards. A further amendment results in a minor change to examples of agricultural produce.

