ACCOUNTING STANDARDS UPDATE: GETTING READY FOR 31 DECEMBER 2018

November 2018

ALETTA BOSHOFF
PARTNER & NATIONAL LEADER, IFRS ADVISORY

BDO

INTRODUCTION

OUTLINE OF THIS WEBINAR

- Regulatory changes for for-profit entities
- Regulatory changes for not-for-profit entities
- Focus areas of regulators
- Accounting standards effective for the first time for the year ended 31 December 2018
- Accounting standards issued but not effective
- IFRIC 23

REGULATORY CHANGES FOR FOR-PROFIT ENTITIES

ITC 39

What is the proposed change?

- If an entity is required to prepare financial statements in accordance with Australian Accounting Standards, then the entity has to prepare GPFSs
- Which entities are required to prepare financial statements in accordance with Australian Accounting Standards?
  - Lodging financial statements with ASIC
  - Regulator, legislation, trust deed, bank, etc. require compliance with the Australian Accounting Standards
- The focus of this phase of the conceptual framework project is on for-profit entities that are not PIEs (i.e. listed entities)

BDO

ITC 39
What are the implications of preparing GPFS?

- Comply with all the recognition and measurement principles of all the Australian Accounting Standards

- Preparation of consolidated financial statements

- Disclosure requirements
  - Tier 1 – All disclosures of all Australian Accounting Standards
  - Tier 2 – Reduced disclosures (RDR or SDR)

ITC 39
Two possible tier 2 alternatives

- GPFS – Reduced Disclosure Requirements (RDR)

- GPFS – Specified Disclosure Requirements (SDR)
  - AASB 101, 107, 108, 1048 & 1054
  - AASB 15 *Revenue from Contracts with Customers*
  - AASB 112 *Income Taxes*
  - AASB 124 *Related Party Disclosures*
  - AASB 136 *Impairment of Assets*

TREASURY PROPOSALS

Proposal to double reporting thresholds for small/large companies

Exposure draft - comments due 14 December 2018

	Current thresholds for 'large proprietary companies (if meet 2 or more of criteria below)	Proposed thresholds for 'large proprietary companies (if meet 2 or more of criteria below)
Consolidated revenue	$25 million or more in consolidated revenue	$50 million or more in consolidated revenue
Gross assets	$12.5 million or more in consolidated gross assets	$25 million or more in consolidated gross assets
Employees	50 or more employees	100 or more employees

TREASURY PROPOSALS

Proposal to double reporting thresholds for small/large companies

https://www.bdo.com.au/en-au/insights/audit-assurance/articles/proposals-to-double-the-reporting-thresholds-for-large-proprietary-companies

CROWD FUNDING

Small proprietary companies can now access crowd-sourced funding

- Private companies with:
  - Less than $25 million in consolidated gross assets, and
  - Less than $25 million in consolidated annual revenue (including from related parties)

Can now use crowd-sourced funding to raise up to $5 million per year

Small proprietary companies can now access crowed-sourced funding without converting to a public company

BDO

CROWD FUNDING
Implications for small proprietary companies

Financial statements must be prepared in accordance with Australian Accounting Standards
(GPFS under ITC 39)

More than $3 million funds raised

(cumulative amount, not annual limit)

No

- Prepare a financial report (s292(2)(c))
- Prepare a directors' report (s298(1AC)), and
- Lodge the financial report and directors' report with the Australian Securities and Investments Commission (s319(2)(a))

Audit not required

Yes

- Prepare a financial report (s292(2)(c))
- Prepare a directors' report (s298(1AC)), and
- Lodge the financial report and directors' report with the Australian Securities and Investments Commission (s319(2)(a))

Audit required

REGULATORY CHANGES FOR NOT-FOR-PROFIT ENTITIES

NOT-FOR-PROFIT ENTITIES

Reporting requirements for entities registered with the ACNC

Existing thresholds

Type of entity	Revenue thresholds	Financial report required	Audit or review engagement?
Small	Less than $250,000	X	N/A
Medium	Greater than or equal to $250,000 but less than $1 million	✔	Review engagement
Large	Greater than or equal to $1 million	✔	Audit

NOT-FOR-PROFIT ENTITIES

Reporting requirements for entities registered with the ACNC

Proposed thresholds - recommendations of Review Panel

Type of entity	Revenue thresholds (determined on a rolling three-year basis)	Financial report required	Audit or review engagement?
Small	Less than $1,000,000	X	N/A
Medium	Greater than or equal to $1,000,000 but less than $5 million	✔	Review engagement
Large	Greater than or equal to $5 million	✔	Audit

BDO

NOT-FOR-PROFIT ENTITIES

News Alert - Deferral of requirement to fair value peppercorn leases

What is the current requirement?

- AASB 16.Aus25.1 requires NFPs to fair value right-of-use assets subject to peppercorn leases (significantly below market leases)
- Dr Right-of-use asset Fair value of $1,000
  - Cr Lease liability $1
  - Cr Potentially income $999
- Originally effective for periods beginning on or after 1 January 2019

BDO

NOT-FOR-PROFIT ENTITIES

News Alert - Deferral of requirement to fair value peppercorn leases (cont)

AASB deferred this requirement at its 13 November 2018 meeting

Why?

'Given the prevalence of restrictions on ROU assets in the NFP sector, the Board prefers the interpretative issues arising from fair valuing such leases to be resolved as part of the fair value measurement project.'
AASB Action Alert, 14 November 2018

- Deferral option expected to remain in place until guidance has been developed for fair-valuing right-of-use assets (i.e. with restrictions) and the financial reporting requirements for private sector NFPs have been finalised

NOT-FOR-PROFIT ENTITIES

News Alert - Deferral of requirement to fair value peppercorn leases (cont)

How long will the temporary deferral option remain?

- Deferral option expected to remain in place until guidance has been developed for fair-valuing right-of-use assets (i.e. with restrictions) and the financial reporting requirements for private sector NFPs have been finanalised

How will entities apply this deferral option in their 2019 financial statements?

- Measure the ROU asset at the present value of payments (usually an insignificant amount)
- Additional disclosure required to ensure users understand effects of the peppercorn lease on the financial performance, financial position and cash flows of the entity

NOT-FOR-PROFIT ENTITIES

News Alert - Deferral of requirement to fair value peppercorn leases (cont)

https://www.bdo.com.au/en-au/insights/audit-assurance/articles/aasb-defers-requirements-for-nfp-lessees-to-fair-value-peppercorn-leases

NOT-FOR-PROFIT ENTITIES

News Alert - Deferral of requirement to fair value peppercorn leases (cont)

https://www.bdo.com.au/en-au/insights/audit-assurance/articles/aasb-defers-requirements-for-nfp-lessees-to-fair-value-peppercorn-leases

NOT-FOR-PROFIT ENTITIES

Duplicative financial reporting to end for Victorian incorporated associations

What are the changes?

- From 1 July 2018 financial statements for incorporated associated to be lodged with ACNC instead of Consumer Affairs Victoria (CAV)
  - No impact on financial statements for incorporated associations that previously prepared and lodged Tier 1 or Tier 2 GPFS. Simply lodge these with ACNC
  - Potential impact if previously lodged SPFS with CAV (see next slide)
- Annual fee no longer payable to CAV
- ACNC will share information with CAV

NOT-FOR-PROFIT ENTITIES

Duplicative financial reporting to end for Victorian incorporated associations

Minimum requirements for SPFS

- SPFS lodged with ACNC must comply with the following minimum standards, required by section 60.30(2)(a) of the the Australian Charities and Not-for-profits Commission Regulation 2013
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Statement of Cash Flows*
  - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - AASB 1048 *Interpretation of Standards*
  - AASB 1054 *Australian Additional Disclosures*.

Transitional provisions - where minimum requirements not previously met

Period	What to lodge with ACNC?
Ending 30 June 2018 (or any later period approved by the ACNC Commissioner)	Same report that previously met CAV requirements
Ending 30 June 2019 (or any later period approved by the ACNC Commissioner)	Comply with AASB 101, 107, 108, 1048 and 1054 No comparatives but explain why
2020 reporting period and beyond	Comply with AASB 101, 107, 108, 1048 and 1054 Comparatives required

NOT-FOR-PROFIT ENTITIES

Duplicative financial reporting to end for NSW incorporated associations

What are the changes?

- From 1 October 2018 financial statements for NSW incorporated associations registered with the ACNC will no longer be lodged with NSW Fair Trading. This means that any 30 June 2018 financial reports will need to be lodged with the ACNC
  - No impact on financial statements for incorporated associations that previously prepared and lodged Tier 1 or Tier 2 GPFS. Simply lodge these with ACNC
  - Potential impact if previously lodged SPFS with NSW Fair Trading (see next slide)
- Annual lodgement fee no longer payable to NSW Fair Trading

NOT-FOR-PROFIT ENTITIES

Duplicative financial reporting to end for NSW incorporated associations

Minimum requirements for SPFS:

- SPFS lodged with ACNC must comply with the following minimum standards, required by section 60.30(2)(a) of the the Australian Charities and Not-for-profits Commission Regulation 2013
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Statement of Cash Flows*
  - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - AASB 1048 *Interpretation of Standards*
  - AASB 1054 *Australian Additional Disclosures*.

Transitional provisions - where minimum requirements not previously met

Period	What to lodge with ACNC?
Ending 30 June 2018	Same report that previously met NSW Fair Trading requirements
Ending 30 June 2019	Comply with AASB 101, 107, 108, 1048 and 1054 No comparatives but explain why
2020 reporting period and beyond	Comply with AASB 101, 107, 108, 1048 and 1054 Comparatives required

NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES

AASB approves Implementation Guidance for NFP Public Sector Licensors

- Guidance added to AASB 15 (Appendix G) to explain and illustrate the licencing principles in AASB 15 from the perspective of a NFP public sector licensor
- Amendment is applicable for annual periods beginning on or after 1 January 2019
- The amendment:
  - Expands the scope of AASB 15 to include non-contractual licences such as those arising from statutory requirements
  - Provides a recognition exemption for short-term licences and licences for which the transaction price is low (although this is not available for licences with variable consideration in their terms and conditions)
  - Includes guidance for distinguishing a licence from a tax, and
  - Illustrates how AASB 15 or AASB 16 Leases would apply to non-IP licences (Appendix G, paragraph G1 includes a useful decision tree to assist).

FOCUS AREAS OF REGULATORS

ASIC FOCUS AREAS

December 2018 year-ends

ASIC has not released December 2018 focus areas

Areas we are expecting ASIC to focus on (based on June 2018 media release):

- Disclosure of the impact the new accounting standards (IFRS 9 and IFRS 15) had on the financial statements
- Disclose the impact of new standards (e.g. IFRS 16) in the notes to the financial statements ahead of the operative date for the standards. It is also reasonable for the market to expect companies to quantify the impacts of these standards
- Companies that have not already done so should determine the extent of the impacts (i.e. be able to quantify the impact) as these could have a flow on effect to financial covenants, tax liabilities, dividend policy and remuneration schemes, and may require new systems and processes.
- Directors and preparers should be mindful of their legal obligations, including the requirement to keep financial records that correctly record and explain their transactions and financial position and performance, and that would enable true and fair financial statements to be prepared and audited.
- Investor and market confidence in an entity improves if the entity implements the new standards in a timely manner and discloses the impacts publicly.
- Directors and preparers should consider any continuous disclosure obligations and the need to keep the market informed, as well as the impact on any fundraising and other transaction documents.

GLOBAL ENFORCEMENT PRIORITIES – 2018 ANNUAL REPORTS

Application of IFRS 15 *Revenue from Contracts with Customers*

- Identification and satisfaction of performance obligations
- Principal vs agent assessment
- Allocation of transaction price to multiple performance obligations
- Presentation of contract assets and contract liabilities upon transition
- Disaggregation of revenue disclosures
- Disclosure objectives of IFRS 15 – nature, timing, amount and uncertainty of revenue and cash-flows from contracts with customers
- Disclosure of significant judgements made and key assumptions used

GLOBAL ENFORCEMENT PRIORITIES – 2018 ANNUAL REPORTS

Application of IFRS 9 *Financial Instruments*

- Reclassifications of financial assets and liabilities on initial application of IFRS 9
- Reconciliation of impairment allowances
- Presentation of interest revenue
- Disclosures regarding key judgements and how expected credit loss and significant increase in credit risk is determined for loan receivable balances

Other

- Disclose expected impact of IFRS 16 Leases implementation
- Environmental matters including climate change risks – e.g: the impacts on the business model from the need to shift from a carbon intensive to a low carbon technology
- Alternative performance measures – items highlighted as being ‘non-recurring’

ACCOUNTING STANDARDS EFFECTIVE FOR THE FIRST TIME FOR THE YEAR-ENDED 31 DECEMBER 2018

FOR PROFIT ENTITIES

Effective for first time - 31 December 2018

New Standards	IFRS 9 *Financial Instruments*	IFRS 15 *Revenue from Contracts with Customers*
Amendments to standards	Amendment to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*	Annual Improvements 2014-2016 Cycle and Other Amendments
New Interpretations	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	

NOT-FOR-PROFIT ENTITIES
Effective for first time - 31 December 2018

New Standards	IFRS 9 *Financial Instruments*
New Interpretations	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRS 9

Financial Instruments

IFRS 9

Things you should be aware of…..

Measurement of financial assets	Impairment	Hedge accounting	Transition	Interaction with IFRS 15
Far more fair value	*Expected credit loss model - should lead to larger bad debt provisions*	*Easier to achieve hedge accounting*	*Its complicated!*	*Its complicated!*

IFRS 9

Measurement of financial assets (cont)

Key points to consider

Loans that fail SPPI must be held at fair value	Unlisted equity investments	All equity investments

• "Bonus interest payments" dependent on a project or an asset
• Loans to start-ups (likely to fail SPPI)
• Loans that will be sold
	• Classified and measured at fair value (no choice)	• Choice of
		  • Fair value through profit or loss, or
		  • Fair value through OCI (i.e. AFS no longer available)

BDO

IFRS 9
Impairment of financial assets

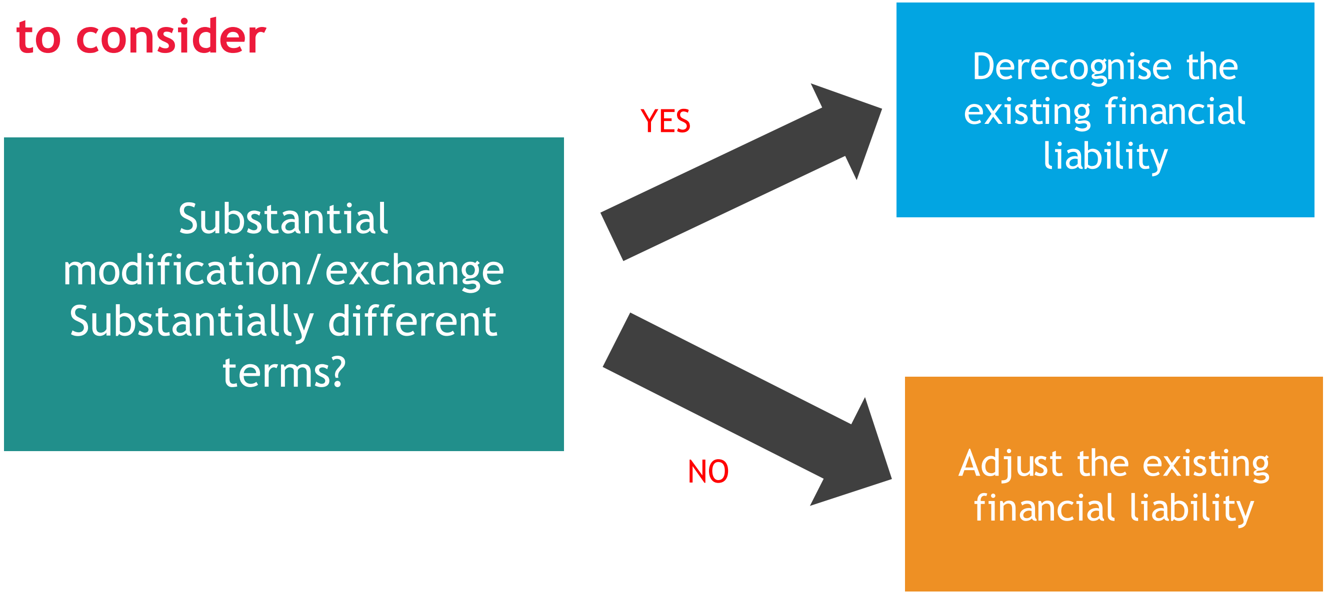
Key points to consider

Trade receivables	Loans to joint ventures and associates	Intercompany loans
Predicted loss model required	Three step approach must be applied	Three step approach must be applied
Not a 'general provision'	Need to identify loans where there has been a significant deterioration in credit risk	
Need to be able to generate sub-portfolios	Likely to be significant issues for start-ups and explorers	
Important on a sale purchase agreement (i.e. parties might have different measurement basis)		

BDO

IFRS 9
Renegotiated loans

Key point to consider



IFRS 9

Renegotiated loans

Accounting approach when modification is considered <u>not substantially</u> different under IAS 39

Recalculate the EIR	Adjust the carrying amount of the liability
New EIR is determined, such that the present value of the revised cash flows equals the carrying amount. • No gain or loss is recorded • Interest expense going forward is based on the new EIR	Recalculate the present value of estimated cash flows using the original EIR and any adjustments are reflected in profit or loss • A gain or loss on modification would be recognised
NOT ACCEPTABLE UNDER IFRS 9	ACCEPTABLE UNDER IFRS 9

IFRS 15

Revenue from Contracts with Customers

IFRS 15

Do you remember the 5 steps?

STEP ONE	STEP TWO	STEP THREE	STEP FOUR	STEP FIVE
Identify the contract	Identify separate performance obligations	Determine transaction price	Allocate transaction price to performance obligations	Recognise revenue when each performance obligation satisfied

IFRS 15

Areas where issues are likely to arise

Step 1

Contract modifications

Can you identify them?

Is the modification distinct?

Extensions and modification of service contracts

IFRS 15

Areas where issues are likely to arise

Step 2

Distinct performance obligations		Material rights	Warranties
Can you identify all distinct performance obligations	Key: distinct within context of the contract (IFRS 15.BC116K) (Is there a transformative relationship between the items in process of fulfilling a contract?)	Can you spot them?	Service or assurance warranty?
Integration / installation – when is this distinct?	Can the customer benefit on its own? (e.g. mobilisation, joining connection fees are not separate performance obligations)	Free goods and services	

IFRS 15

Areas where issues are likely to arise

Step 3

Reversal constraint	Penalties and awards (liquidated damages)	Step pricing arrangements	Price concessions
Key concept	Demonstrate highly probable it will not be incurred if not including		

IFRS 15

Areas where issues are likely to arise

Step 4

- Allocation of transaction price in bundled performance obligations
- Allocation of discounts in bundled performance obligations
- Allocation of variable consideration

IFRS 15

Areas where issues are likely to arise

Step 5

Point in time or over time?

Less revenue may be able to be recognised over time

Construction contract – where is the work being performed

Over time recognition does not result in WIP

Bill and hold – difficult to recognise revenue!

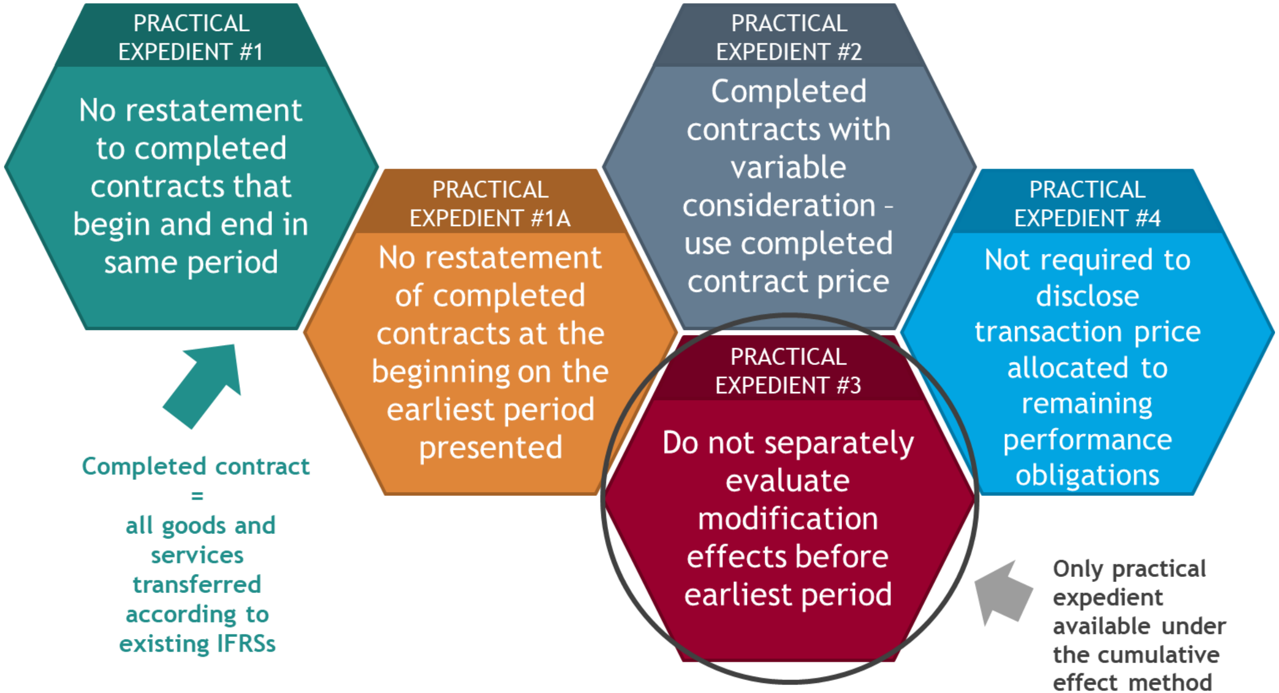
IFRS 15
Transition

Which method are you planning to use?

Cumulative Effect Method	Retrospective Method	Retrospective Method with practical expedients
• Easier to apply • Less time consuming • Requires less information • Comparative figures unchanged • Impairs comparability to prior year • Obscures trend and variance analysis	• More information required • Enables comparability to prior years • Provides relevant information for trend and variance analysis	• More information required • Enables comparability to prior years (for annual periods) • Provides relevant information for trend and variance analysis • Allows use of all practical expedients

IFRS 15
Transition

Which method are you planning to use: available practical expedients



AMENDMENT TO IFRS 2

Classification and Measurement of Share-based Payment Transactions

AMENDMENT TO IFRS 2

Impact of vesting and non-vesting conditions when measuring cash-settled share-based payment transactions

Calculating fair value of a cash-settled share-based payment liability

Account for vesting conditions (market and non-market) and non-vesting conditions in the same way as you would if these were equity-settled share-based payment transactions.

Condition	Example	How accounted for in cash settled liability?
Vesting: non-market	Target sales/profit	No impact on fair value. Adjust number of awards expected to vest
Vesting: market	Target share price	Adjust fair value at each reporting date until settlement
Non-vesting	Future commodity price	Adjust fair value at each reporting date until settlement

Cumulative cash-settled share-based payment expense recognised = cash paid

AMENDMENT TO IFRS 2

Changing classification from cash-settled to equity-settled

- Guidance added to IFRS 2 clarifying accounting when arrangement changes from being cash settled to equity settled:

1. Measure the equity-settled transaction at the fair value of the equity instruments granted
2. Derecognise the cash-settled liability, and
3. Then recognise the difference between 1. and 2. immediately in profit or loss.

Unlikely to have widespread impact in practice

AMENDMENT TO IFRS 2

Net settlement feature for withholding tax obligations

If entity had to withhold portion of equity instruments from <u>equity settled</u> share-based payment arrangement

How to classify arrangement?

As equity-settled share-based payment transaction

This exception only applies where the entity is required to withhold a portion of equity instruments. It does not apply if there is a choice (see IFRS 2.33H)

ANNUAL IMPROVEMENTS 2014-2016 CYCLE AND OTHER AMENDMENTS

- *Amendment to IAS 28*
- *Amendment to IAS 40*

AMENDMENTS TO IAS 28

Venture capital organisations, mutual funds, unit trusts, other similar entities

May elect to measure investments in associates and joint ventures at fair value <u>OR</u> use the equity method

[AASB 128, paragraph 18]

Clarifies election available on investment by investment basis

Entity that is <u>not</u> an investment entity

May retain fair value measurement applied by its associates and joint ventures (that are investment entities)

[AASB 128, paragraph 36A]

Clarifies election available on investment by investment basis

AMENDMENT TO IAS 40

Old guidance in IAS 40 for transfers in and out of investment property

Type of transfer		Evidence required
Investment property	owner occupied property (PPE)	Owner occupation started
Investment property	inventories	Development started, with a view to sale
PPE (owner occupied)	investment property	End of owner occupation
Inventories	investment property	Commencement of operating lease to another party

AMENDMENT TO IAS 40

New guidance in IAS 40 for transfers in and out of investment property

Type of transfer			Evidence required
Investment property	→	owner occupied property (PPE)	Development with a view to owner occupation. For example, a transfer might occur when the lease is terminated and there are firm plans in place for redevelopment that suits the client's specific needs.
Inventories	→	investment property	Inception of operating lease to another party

BDO

IFRIC 22

Foreign Currency Transactions and Advance Consideration

BDO

IFRIC 22

What issue was clarified?

- How to determine the 'date of transaction' when an entity applies IAS 21.21-22 when recognising revenue
- Diversity existed in practice, as follows:

Option 1	Option 2
Record revenue in income statement at amount of deferred income originally recognised (i.e. spot rate on date consideration received)	Record revenue in income statement using spot rate on date the non-monetary item released as revenue. Exchange difference recognised in profit or loss (i.e. spot rate on date income recognised)

- IFRS IC decided issue was broader given similar diversity exists for other types of transactions e.g. purchase and sale of PPE, intangibles, investment property, leases, receipt of grants etc

IFRIC 22

What was the consensus?

- Use the exchange rate on the date that the entity initially recognises the non-monetary asset or non-monetary liability arising from the receipt or payment of the advance consideration
    - i.e. do not retranslate for changes in spot rate between initial recognition and date the income or expense etc is recognised in profit or loss
- Determine date of transaction for each payment where multiple payments or receipts exist

IFRIC 22
Example

Background

- On 1 January 2017, Entity A enters into contract to purchase a machine for USD100,000
- Payment must be made in full on 1 April 2017
- Machine delivered 30 September 2017
- Exchange rates as follows:
  - 1 April 2017 AUD1 : USD0.75
  - 30 June 2017 AUD1: US0.72
  - 30 September 2017 AUD1 : USD0.70
- Entity A has a AUD functional currency
- Year-end is 30 June 2017

Question

What are the journal entries to record the purchase of the machine under the requirements of IFRIC 22?

IFRIC 22
Example

Answer

1 April 2017 – record prepayment for machine

DR	Prepayment	AUD133,333	
CR	Cash		AUD133,333

(USD100,000/0.75)

30 September 2017 – record delivery of machine

DR	Machine (PPE)	AUD133,333	
CR	Prepayment		AUD133,333

ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE

FOR PROFIT ENTITIES

Effective for first time - 31 December 2019

New Standards	IFRS 16 *Leases**	IFRS 17 *Insurance Contracts****	
Amendments to standards	Amendment to IFRS 9: *Prepayment Features with Negative Compensation**	Amendment to IAS 28: *Long-Term Interests in Associates and Joint Ventures**	Annual Improvements 2015-2017 Cycle*
	Amendments to IFRS 3: *Definition of a Business***	Amendments to IAS 1 & IAS 8: *Definition of Material***	
New Interpretations	IFRIC 23 *Uncertainty over Income Tax Treatments**		

* *Effective for annual periods beginning on or after 1 January 2019*

** *Effective for annual periods beginning on or after 1 January 2020*

*** *Effective for annual periods beginning on or after 1 January 2021*

NOT-FOR-PROFIT ENTITIES

Effective for first time - 31 December 2019

New Standards	AASB 15 *Revenue from Contracts with Customers*	AASB 16 *Leases*
	AASB 1058 *Income of Not-for-Profit Entities*	
Amendments to standards	Amendment to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*	Annual Improvements 2014-2016 Cycle and Other Amendments
	Amendment to IAS 28: *Long-Term Interests in Associates and Joint Ventures*	Amendment to IFRS 9: *Prepayment Features with Negative Compensation*
	Annual Improvements 2015-2017 Cycle	
New Interpretations	IFRIC 23 *Uncertainty Over Income Tax Treatments*	

IFRIC 23

IFRIC 23
Overview

What issue does IFRIC 23 clarify?	Why does uncertainty over income tax treatment exist?
When and how to apply the recognition and measurement requirements of IAS 12 *Income Taxes* when there is uncertainty over income tax treatments	Tax law may not be clear

Application date
Applicable to periods beginning on or after 1 January 2019, with early application permitted

IFRIC 23

Issues addressed by IFRIC 23

Whether an entity considers uncertain tax treatments separately

The assumptions an entity makes about the examination of tax treatments by taxation authorities

How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

How an entity considers changes in facts and circumstances

IFRIC 23

Are uncertain tax treatments considered separately?

Use approach that best predicts the resolution of the uncertainty

Take into account

How it prepares its income tax returns and support for income tax treatments

How the entity expects the tax authority to examine and resolve issues relating to the uncertain tax treatment

IFRIC 23

Assume a tax audit will be conducted

How to determine impact of uncertain tax treatments?

Assume tax authority will perform a tax audit

Assume tax authority has full knowledge of all facts and circumstances

Ignore probability of having tax audit when calculating amount of tax owing

IFRIC 23

When is the effect of the uncertain tax position reflected in tax calculations?

Reflect uncertain tax position in tax calculation

IF PROBABLE

(> 50% CHANCE)

Tax authority will accept uncertain tax position

IFRIC 23

When is the effect of the uncertain tax position reflected in tax calculations?

Measurement basis when <u>not</u> probable tax authority will accept tax position

Most likely amount	**Expected value method**
How it prepares its income tax returns and support for income tax treatments	How the entity expects the tax authority to examine and resolve issues relating to the uncertain tax treatment

IFRIC 23

What if facts and circumstances change?

Reassess judgements and estimates if facts and circumstances change or new information becomes available

- The tax authority has taken a particular course of action (e.g. agreeing or disagreeing with the uncertain tax treatment)
- Information becomes available about the amount received or paid to settle a similar tax treatment
- There have been changes in rules established by the tax authority
- The tax authority's right to examine or re-examine a tax treatment has expired

IFRIC 23
Disclosure

- Consider if disclosure of uncertain tax treatments required as significant judgements or estimates (IAS 1, paragraphs 122 & 125)

- If probable tax authority will accept uncertain tax treatment (i.e. measurement adjustments are not made to tax balances), entities must also consider disclosing the potential effect of the tax-related contingency under IAS 12, paragraph 88.

RE-CAP OF THIS WEBINAR

- Regulatory changes for for-profit entities
- Regulatory changes for not-for-profit entities
- Focus areas of regulators
- Accounting standards effective for the first time for the year ended 31 December 2018
- Accounting standards issued but not effective
- IFRIC 23

DO YOU NEED ASSISTANCE?

MONTHLY FINANCIAL REPORTING WEBINARS

- https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2018-financial-reporting-accounting-standards

- Upcoming Webinars in 2018
  - IFRS 16 – Problem Areas (12 December 2018)

NEWSLETTERS & OTHER PUBLICATIONS

- https://www.bdo.com.au/en-au/accounting-news/accounting-news-august-2018
- https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-technical-resources

TECHNICAL ADVICE

Melbourne & National

Aletta Boshoff

Perth

Wayne Basford

Sydney

Kevin Frohbus

Brisbane

Clark Jarrold

https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services#main_content

BDO IFRS ADVISORY TEAM


Aletta Boshoff
Partner, National Leader


Wayne Basford
Partner


Clark Jarrold
Partner


Stephen Newman
General Council


Kevin Frohbus
Principal


Sheryl Levine
Associate Director


Susan Oldmeadow-Hall
Associate Director


Kay Kelly
Associate Director


Sunita Popp
Associate Director


Susan Healy
Associate Director


Ashleigh Woodley
Associate Director


Evelyn Hogg
Associate Director


Judith Leung
Senior Manager


Alison Wolf
Senior Manager


Julie Pagcu
Senior Manager


Elena Chwal
Manager


Cameron McLean
Consultant

QUESTIONS

DISCLAIMER

BDO