CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Reporting Alert

IFRS

ISSUE 008 | AUGUST 2012

ANNUAL IMPROVEMENTS ALERT

In this edition of CICA Reporting Alert, we address the Annual Improvements to IFRSs issued by the IASB:

- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Subject matter – repeat application of IFRS 1)
- Amendment to Appendix D of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Subject matter – borrowing costs exemption)
- Amendment to IAS 1 *Presentation of Financial Statements* (Subject matter – clarification on comparative information)
- Amendment to IAS 16 *Property, Plant and Equipment* (Subject matter – treatment of spare parts)
- Amendment to IAS 32 *Financial Instruments: Presentation* (Subject matter – income tax and transactions recognized in equity)
- Amendment to IAS 34 *Interim Financial Reporting* (Subject matter – segment information)

This publication was originally published by The Canadian Institute of Chartered Accountants in 2012.
It has been reissued by Chartered Professional Accountants of Canada.

Starting Again for the First Time

Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Why do these amendments to IFRS 1 matter to me?

- The amendments clarify the choices available to an entity that has applied IFRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs (as required by IAS 1).
- Presumably in Canada this will usually only apply to private enterprises for whom it is not mandatory to apply IFRSs and who, for whatever reason, have not done so consistently in all periods.

When are these amendments effective?

- For annual periods beginning on or after January 1, 2013. Earlier application is permitted.

What are the key changes?

- The amendments clarify that the entity must either apply IFRS 1, as if it were a first-time adopter, or else apply IFRSs retrospectively in accordance with IAS 8 A*ccounting Policies, Changes in Estimates and Errors* as if it had never stopped applying IFRSs.
- The entity must disclose
  - the reason it stopped applying IFRSs
  - the reason it is resuming applying IFRSs
  - the reasons for electing to apply IFRSs as if it had never stopped applying IFRSs, when the entity does not elect to apply IFRS 1

Clarification on Capitalization

Amendment to Appendix D of IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Why do these amendments to IFRS 1 matter to me?

- The amendments clarify the choices available in respect of IAS 23 *Borrowing Costs* to an entity adopting IFRSs for the first time.
- For entities now adopting IFRSs for the first time, this will remove some uncertainties that existed in the past, including in particular whether or not to reverse amounts resulting from interest and other borrowing costs capitalized under previous GAAP.

When are these amendments effective?

- For annual periods beginning on or after January 1, 2013. Earlier application is permitted.

What are the key changes?

- Borrowing costs capitalized under a previous GAAP before the date of transition to IFRSs may be carried forward without adjustment to the amount previously capitalized in the carrying amounts of the assets.
- The first-time adopter accounts for borrowing costs incurred on or after that transition date in accordance with IAS 23—this also applies to borrowing costs incurred on or after the transition date on qualifying assets that were already under construction at the time of transition.
- As explained previously, a first-time adopter can elect to apply the requirements of IAS 23 from the IFRS transition date, or designate an earlier date and apply IAS 23 to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is after that date.

Controlling the Comparatives

Amendment to IAS 1 *Presentation of Financial Statements*

Why do these amendments to IAS 1 matter to me?

- The amendments clarify various issues regarding the presentation and disclosure requirements for comparative information.
- These aspects of IAS 1 have caused confusion in the past for entities providing more than the minimum required comparative information, or presenting an additional statement of financial position in various defined circumstances.

When are these amendments effective?

- For annual periods beginning on or after January 1, 2013. Earlier application is permitted.

What are the key changes?

- An entity must present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity, and related notes.

- An entity may present comparative information in addition to this minimum, as long as that information is prepared in accordance with IFRSs.
  - This comparative information need not comprise a complete set of financial statements (for example, an entity may present a third statement of profit or loss and other comprehensive income without presenting a third statement of financial position), but the entity must present related note information for those additional statements.

- An entity must also present a third statement of financial position as at the beginning of the preceding period if it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, that has a material effect on the information in the statement of financial position at the beginning of the preceding period.
  - In this case, it provides all required disclosures about the reclassification or restatement, but need not present all other notes related to that third statement of financial position.
  - It provides this third statement of financial statement as at the beginning of the preceding period even if the financial statements also present comparative information for earlier periods.

- The IASB also made corresponding changes to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and to IAS 34 *Interim Financial Reporting*.

Sparing Us the Spare Parts

Amendment to IAS 16 *Property, Plant and Equipment*

Why do these amendments to IAS 16 matter to me?

- The amendments clarify when items such as spare parts and servicing equipment should be treated as inventory or as property, plant and equipment – the wording previously included in IAS 16 was often considered confusing.

When are these amendments effective?

- For annual periods beginning on or after January 1, 2013. Earlier application is permitted.

What are the key changes?

- Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

- Entities will therefore determine the treatment of these items by assessing whether or not they are held for use in producing or supplying goods or services, for rental to others, or for administrative services; and whether or not they are expected to be used during more than one period.

Now a Less Taxing Read

Amendment to IAS 32 *Financial Instruments: Presentation*

Why do these amendments to IAS 32 matter to me?

- The amendments clarify the income tax consequences relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

When are these amendments effective?

- For annual periods beginning on or after January 1, 2013. Earlier application is permitted.

What are the key changes?

- IAS 32 now states specifically that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction are accounted for in accordance with IAS 12. IAS 12 requires recognizing current and deferred tax outside of profit or loss if the tax relates to items that are recognized, in the same or a different period, outside of profit or loss. Taxes relating to items recognized in other comprehensive income and to items recognized directly in equity are therefore recognized in other comprehensive income and directly in equity respectively.

- The IASB stated separately that these amendments do not address the distinction between income tax consequences of dividends and withholding tax for dividends, both of which are addressed separately in IAS 12.

- The IASB also made corresponding changes to IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*.

Aligning with the Annuals

Amendment to IAS 34 *Interim Financial Reporting*

Why do these amendments to IAS 34 matter to me?

- The amendments make the disclosure requirements of IAS 34 relating to segment information more consistent with the requirements of IFRS 8 *Operating Segments*.

When are these amendments effective?

- For annual periods beginning on or after January 1, 2013. Earlier application is permitted.

What are the key changes?

- IAS 34 now requires disclosing a measure of total assets and liabilities in interim financial reports for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

- The standard previously required disclosing total assets for which there has been a material change from the amount disclosed in the last annual financial statements, without limiting this to situations where such amounts are regularly provided to the chief operating decision maker; implying that the information-gathering requirements may have been greater previously for interim reporting purposes than for annual reporting purposes.