

# Beyond the GAAP

Mazars' newsletter on accounting standards

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## Editorial

2017 ended fairly quietly, since the European Commission had already endorsed several texts in November and the IASB's December meeting decided to postpone publication of most of its texts and draft texts, with the exception of the annual improvements to IFRSs, which we discuss in this month's 'A closer look' study. This being the case, the implementation of IFRS 9 and IFRS 15 in January 2018 will be more than enough to keep entities and their auditors busy, on top of the preparation of the 2017 financial statements.

This month's crossword reviews the year's accounting events! We'd like to take this opportunity to wish you a Happy New Year and a smooth passage to the new standards on behalf of all the team of columnists at Beyond the GAAP!

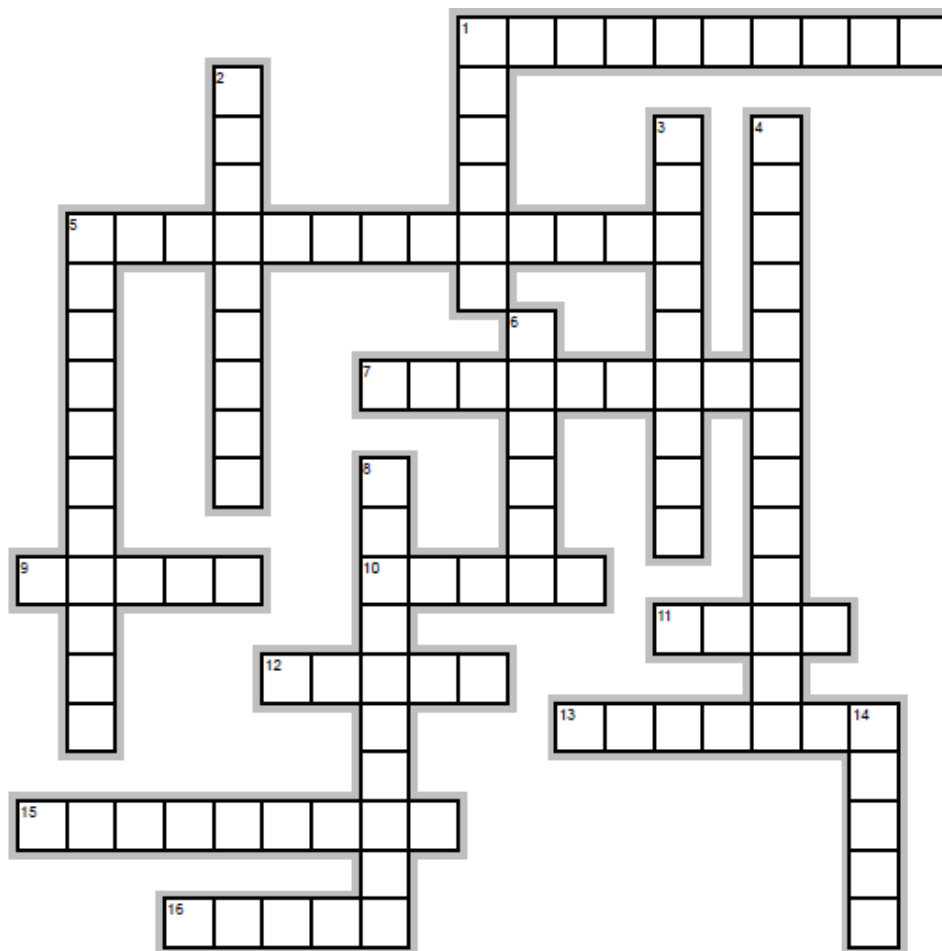
Enjoy your reading!

Edouard Fossat

Isabelle Grauer-Gaynor



# Crossword: 2017 in review



## Across

1. As in the case of IFRS 15 and IFRS 9, the IASB has set up such a group for IFRS 17
5. The treatment of these types of operations on financial liabilities will be drastically changed
7. The IFRIC 23 interpretation, issued in May, clarifies the accounting for such income tax positions
9. Family name of the Chair of the IFRS Interpretations Committee
10. IFRS which the IASB proposed to clarify by amending the description of the chief operating decision maker
11. Type of IFRS value subject to a post-implementation review
12. Standard which insurance entities and bancassurers may defer until the effective date of IFRS 17
13. The IFRIC 22 interpretation addresses the payment of such consideration in a foreign currency
15. These prepayment clauses were the subject of an amendment to IFRS 9
16. Where to put the disclosures required ahead of the application of the new standards

## Down

1. Number of the first batch of enforcement decisions issued by ESMA in 2017
2. The exposure draft on IAS 8 aims to help entities distinguish them from accounting policies
3. The IASB published a standard on this important subject in May
4. Its improvement is the major focus of the IASB's work
5. The subject of the last Practice Statement published by the IASB in September
6. The standard on contracts of this type was endorsed by the EU in November
8. Annual publication from the regulators drawing attention to key points for the preparation of annual accounts
14. Body that advises the European Commission on endorsing standards

# A closer look

## The IASB publishes *Improvements to IFRSs – 2015-2017 Cycle*

On 12 December 2017, the IASB published the 2015–2017 Cycle of improvements to IFRSs, bringing amendments to IFRS 3 – *Business Combinations*, IFRS 11 – *Joint arrangements*, IAS 23 – *Borrowing Costs*, and IAS 12 – *Income taxes*.

Beyond the GAAP presents these amendments below.

### Amendments to IFRS 3 and IFRS 11

We should note at the outset that the amendments to IFRS 3 and IFRS 11 result from a somewhat unusual process. A draft amendment to IFRS 3 and IFRS 11 was published by the IASB on 29 June 2016 (ED/2016/1), separately from the annual improvements process. This draft amendment (see beyond the GAAP no 102 – July August 2016) addressed not just the accounting treatment of acquisitions of interests in a joint operation (IFRS 11) but also sought to clarify the definition of a business within the meaning of IFRS 3, a critical notion when determining whether a transaction should be treated as a business combination or the acquisition of assets.

The clarification of the definition of a business is now the subject of a separate amendment which is expected to be finalised in the second quarter of 2018, whilst the accounting treatment of the acquisition of interests in a joint operation was incorporated into the final version of the 2015–2017 Cycle of improvements to IFRSs.

The clarifications provided by the newly-published amendments to IFRS 3 and IFRS 11 will be limited in their effects, since joint operations are relatively few in number.

As a reminder, IFRS 11 distinguishes two types of joint arrangements:

- Joint ventures

In the (usual) case where the parties only have rights to the net assets of the arrangement, they measure their investment using the equity method.

- Joint operations

In the (in practice rare) case where the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they recognise a share of the assets and liabilities (and of the revenue and expenses) using a method close to proportional consolidation. In practice, and provided that the rights and obligations in the assets and liabilities of the joint arrangement are equivalent, this accounting treatment is applied both by joint operators and by parties to a joint arrangement that do not share control.

The IASB wished to clarify the accounting treatment of the acquisition of an interest in a joint operation, because entities were not treating these transactions in a consistent way. The amendments clarify that:

- When an investor obtains exclusive control of an arrangement, it shall remeasure its previously held interest in the joint operation's assets and liabilities at the acquisition-date fair value and recognise the resulting gain or loss in profit or loss.

This accounting treatment, based on the logic of step acquisitions, is the same whether the entity was a joint operator or simply a party (i.e. a partner without joint control).

- When the additional acquisition enables an investor to obtain joint control, it should not remeasure previously held interests in the assets and liabilities of the joint operation.

The underlying rationale is that such a transaction does not affect the consolidation scope, and that this approach is consistent with that applied to the transactions, regarded as similar by the Board, that result in a passage from significant interest to joint control (or vice versa).

These amendments shall be applied prospectively to the acquisition of interests in a joint operation occurring in financial periods beginning on or after 1 January 2019. Early application is possible.

### Clarification of IAS 23

Readers will recall that IAS 23 distinguishes specific borrowing (incurred to acquire a specific qualifying asset) from general borrowing. An entity must include the cost (net of any investment income) of specific borrowing in the cost of the qualifying assets concerned before applying the capitalisation rate (i.e. the average borrowing cost, excluding specific borrowing) to the portion not specifically financed.

The amendment to IAS 23 clarifies that the concept of specific borrowing assumes that the qualifying asset is being prepared for use or sale.

In other words, a specific loan is re-designated as 'general' when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

This amendment shall be applied prospectively to borrowing costs borne during financial periods beginning on or after 1 January 2019. Early application is possible.

## Clarification of IAS 12

The amendment to IAS 12 clarifies that the income tax consequences of the distribution of dividends on financial instruments classified in equity must be accounted for in profit or loss, regardless of their origin, at the date the dividend liability is recognised.

### Key points

- Amendments to IFRS 3 and IFRS 11: in an acquisition of an additional interest in a joint operation, the acquirer shall only remeasure its previously held interest in the assets and liabilities of the joint operation at fair value in profit or loss where it obtains exclusive control of the arrangement.
- IAS 23 amendment: specific borrowing is reclassified as general when the qualifying asset it financed is ready for use or sale.
- IAS 12 amendment: the tax consequences of the distribution of dividends on financial instruments classified in equity must be accounted for in profit or loss.

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# Events and FAQ

## Frequently asked questions

### IFRS

- Takeover of real estate company – what is the treatment for property taxes and the office tax when accounting for a business combination?
- Recognition of consideration payable to the customer – reduction of the revenue or expenses?
- Assignment of receivables.
- Group of non-current assets meeting the definition of a discontinued operation.

## Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
22-26 January	16 January	6 February	17-18 January
19-23 February	13-14 March	20 March	7-8 March
19-23 March	9 May	23 April	6 April

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