

# Beyond the GAAP

Mazars' newsletter on accounting standards

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## Editorial

Target: the half-year accounts! With the disclosures required by the two standards that came into force on 1 January 2018 and the full list of applicable texts, three 'A Closer look' studies will support you in their preparation.

In passing, take the time to review the details of IAS 34 on interim financial statements in our crossword!

Enjoy your reading!

Edouard Fossat

Isabelle Grauer-Gaynor

# IFRS Highlights

## Second meeting of the IFRS 17 TRG

The Transition Resource Group for IFRS 17 met for the second time on 2 May. Readers will recall that the purpose of this group is to seek feedback from its members, all experts in the insurance sector, on questions submitted by various stakeholders. Following these discussions, the IASB and the IFRS IC can decide to amend the standard or to issue an interpretation, respectively.

TRG members discussed the following topics during this meeting:

- combination of insurance contracts;
- determining the risk adjustment for non-financial risk in a group of entities;
- cash flows within the contract boundary;
- boundary of reinsurance contracts held with repricing mechanisms; and
- determining the quantity of benefits for identifying coverage units.

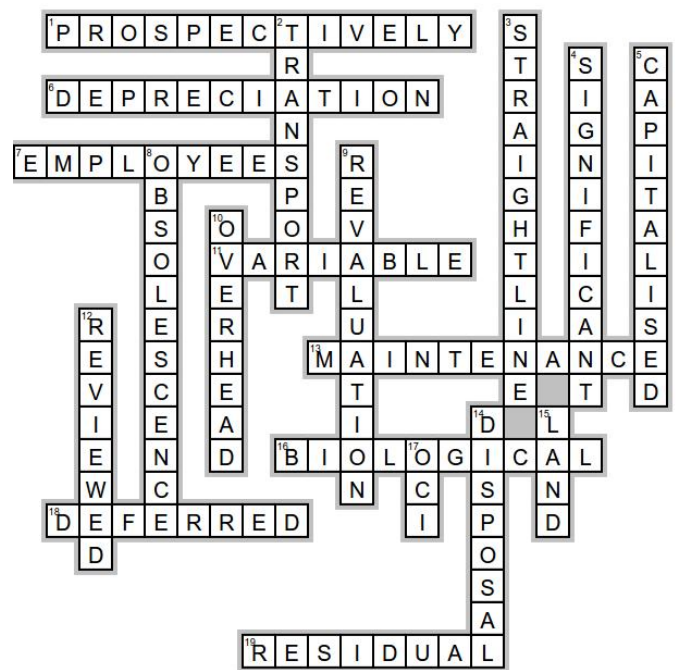
The meeting also received a report on the IASB's outreach on the implementation challenges of IFRS 17 and was informed of the new questions submitted.

The first meeting of this group took place last February (see the February 2018 edition of Beyond the GAAP no 119). The report of the meeting is available at:

<https://www.ifrs.org/-/media/feature/meetings/2018/may/trg-for-ifs-17/trg-for-ifs17-meeting-summary.pdf>.

The next meeting will take place on 26 September 2018.

## Crossword: last month's solution



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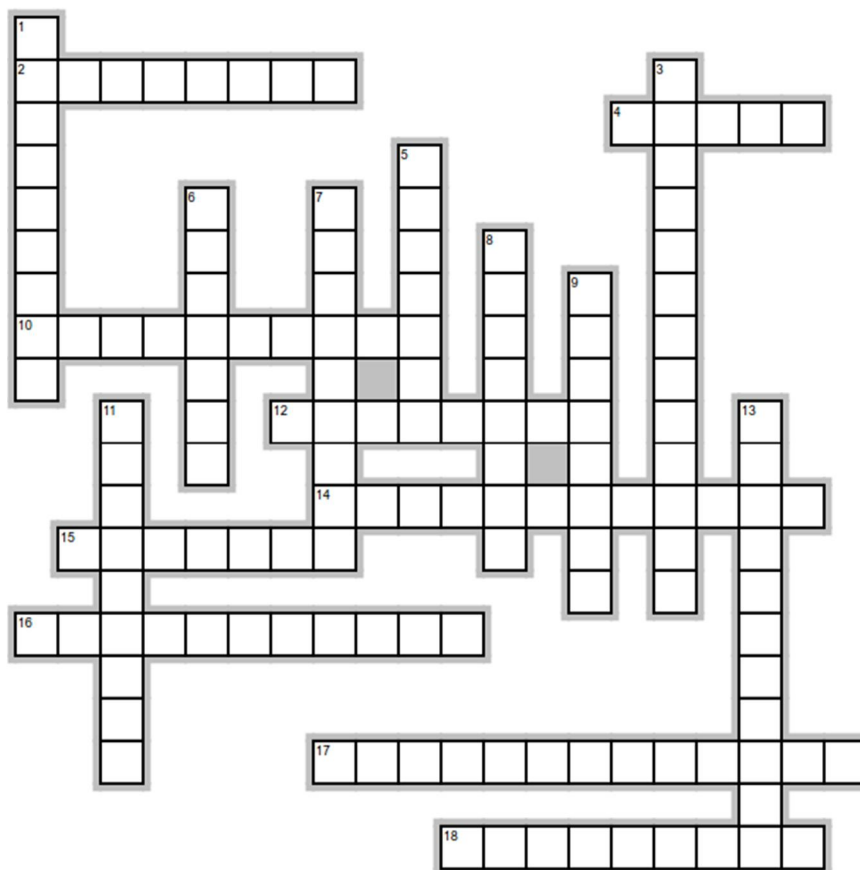
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# Crossword: IAS 34 under the microscope



## Across

2. These types of revenues and expenses may not be anticipated or deferred in the interim financial statements if anticipation or deferral would not be appropriate at the end of the entity's financial year
4. Number of the standard requiring disclosures when first applying an IFRS
10. IAS 34 states that the list referred to at 8 Down is not this
12. Except in special cases, the comparative interim periods must be this in the event of a change in accounting policy
14. In an interim period, it is calculated on the basis of assets owned at the end of the period and takes no account of asset acquisitions or disposals planned for later in the financial year
15. This variable consideration as defined in IFRS 15 must be taken into account when estimating the revenue to be recognised for an interim period, based on the rate expected at the end of the reporting period
16. Principle underlying the need to make disclosures in the interim accounts
17. Technique which may be applied for measuring retirement benefits at the end of an interim period in the absence of significant events
18. Financial statements that can be presented for an interim period instead of a complete set of financial statements

## Down

1. Valuations in the interim accounts require more of these than those in the annual accounts
3. Revenue must be this in the interim financial report in accordance with the disclosure requirements of IFRS 15
5. Listed entities must report this type of information even in interim periods
6. This type of earnings per share must be reported for the interim period if the entity is obliged to present it in its annual financial statements
7. Their distribution must be mentioned in the interim financial report
8. Number of events or transactions listed in IAS 34 for which disclosures must be provided in the interim financial statements, if they are material
9. Asset the impairment of which, when accounted for in the interim accounts, cannot be reversed in the annual accounts if its recoverable value rises
11. Often carried out at the year-end for inventories, but not required for interim periods
13. The average annual tax rate used to calculate the tax charge for an interim period takes account of the existence of this type of taxation

# A Closer Look

## Disclosures in the interim accounts under IFRS 15

The new IFRS 15 on revenue recognition came into effect on 1 January 2018. The first interim accounts, generally presented in condensed form under IAS 34 – *Interim Financial Reporting*, must take account of the implementation of this new standard.

### 1. Interim financial report in conjunction with IFRS 15

The condensed interim financial statements at 30 June 2018<sup>†</sup> must include, in application of IAS 34 (which states that additional line items or notes shall be presented if their omission would make the condensed interim financial statements misleading) and in conjunction with IFRS 15:

- a) A condensed statement of financial position:
  - This must reflect the new policies for presenting the statement of financial position under IFRS 15, which defines *inter alia* the concepts of contract assets and contract liabilities, and of customer receivables.
  - These line items may be presented separately on the statement of financial position, following the presentation methods set out in IAS 1.
  - It is not mandatory to use these descriptors for contract assets and contract liabilities, but appropriate information must be provided, where applicable, so that users of financial statements can distinguish between receivables and contract assets.
- b) One or more condensed statements of profit and loss and other comprehensive income;
- c) A condensed statement of changes in equity:

This statement must include a separate line to present the impact of the change of method on the opening equity (i.e. at 1 January 2017 in the case of the full retrospective method and if a single comparative period is presented, or at 1 January 2018 if the modified retrospective method is chosen);
- d) A condensed statement of cash flows; and
- e) A selection of explanatory notes.
  - IAS 34 requires an explanation of significant events and transactions to enable users to understand how the financial situation and the financial performance

of the entity have changed since 31 December 2017. These disclosures must update the relevant information contained in the most recent annual report.

*IAS 34 (amended by IFRS 15) also requires disclosures in the event of recognition of a significant impairment of assets arising from contracts with customers (calculated in application of IFRS 9).*

- It also presents a list of the minimum information to be provided in the notes or elsewhere in the interim financial report, with incorporation by reference in the financial statements. This information includes:
  - A description of the nature and impact of the change of accounting policy in response to the introduction of IFRS 15 (see 2 below).
  - A disaggregation of the revenue in application of IFRS 15 paragraphs 114 and 115 (see 3 below).

This minimum list may be supplemented by any other relevant information where IFRS 15 has a notable impact, including on the disclosures to be provided in the notes to the annual accounts (e.g. the transaction price allocated to unsatisfied or only partly satisfied performance obligations at the reporting date (the “order book”), if this information is critical for the entity and differs significantly from the amounts reported outside the financial statements using a non-GAAP indicator). This is because users of financial statements are unable to rely on the last available annual report to obtain information that is important to the entity and which was not required by the previous texts on revenue.

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<sup>†</sup> From 31 March 2018, if a entity presents quarterly condensed interim accounts.

## 2. Transition-related disclosures required by IFRS 15

In our view, and in the absence of any more specific guidance, there should be a reference to the disclosures required under IAS 8 in the event of a change of accounting policy (see paragraph 28 of the standard) and to the transitional information required by IFRS 15 (some of which amends the requirements of IAS 8):

- In its recommendations for the 2017 reporting date<sup>4</sup>, the AMF (the French Securities regulator) drew attention to IFRS 15.C4 – C8, paragraphs which list a number of disclosures to be made on first application of the standard:
  - If the full retrospective method is used, an entity must present the quantitative information demanded by paragraph 28(f) of IAS 8 (i.e. the amount of adjustments for each financial statement line item affected ) for the 2017 comparative period.
  - If the modified retrospective approach is taken, an entity must provide disclosures on the impact at 30 June 2018, on each financial statement line item, of applying IFRS 15 instead of IAS 11, IAS 18 and the related interpretations in effect before the change. A entity must also give reasons explaining the main

## 3. Disaggregation of revenue

The disaggregation of revenue is a major area for financial disclosures under IFRS 15. In practice, an entity must disaggregate the revenue into categories depicting how the nature, amount, timing and uncertainty of revenue and cash flows from ordinary activities are affected by economic factors, based on the indication given in the IFRS 15 application guidance:

- The extent of disaggregation depends on the facts and circumstances of the contracts the entity has concluded with its customers.
- When it chooses the type or types of categories to use for the disaggregation of its revenue, an entity must take into account the way in which disclosures on revenue have been presented for other purposes, including the information presented elsewhere than in the financial statements, such as earnings releases, annual reports or presentations to investors; information regularly examined by the the chief operating decision maker in order to assess the financial performance of operating segments;
- Appropriate categories include:
  - a) types of goods and services (for example, major product lines),

impacts described above. On 3 April ESMA (the European Securities and Markets Authority) published a report<sup>5</sup> making it clear that it expects the disclosures required by the standard to be provided in all 2018 interim financial statements drawn up by companies opting for the modified retrospective method.

- Whatever the choice of transitional method, entities must indicate the simplifications they have used for the purposes of transition, and a qualitative assessment of the estimated impact of each of these measures where it is reasonably feasible to do so.

It also appears important to update the description of the accounting policies and methods applied when accounting for revenue, and the judgments reached, if the information presented in the 2017 annual report is significantly affected by the introduction of IFRS 15. The AMF notes in its recommendations for the 2017 reporting period that the first financial statements under IFRS 15 “will include detailed and specific information on IFRS 15 in order to enable readers to understand the main analyses and accounting conclusions. Entities should highlight the aspects of the standard which have most impact.”

- b) geographical location (for example, countries or regions),
- c) markets or types of customers (for example, public and private sector customers),
- d) contract types (for example, distinguishing between fixed-price and cost-of-service contracts),
- e) contract duration (for example, distinguishing between short-term and long-term contracts),
- f) date or timescale for the provision of goods or of services (for example, goods or services provided at a given date and goods or services provided over a given period),
- g) distribution method (for example, goods sold directly to customers and goods sold by intermediaries).

An entity must also provide sufficient information to enable users of financial statements to understand the relationship between the disclosures on the disaggregation of revenue and the disclosures on revenue by segment in application of IFRS 8.

<sup>4</sup>AMF recommendations - Preparation of 2017 financial statements – DOC-2017-09: [http://www.amf-france.org/en\\_US/Reglementation/Doctrine/Doctrine-list/Doctrine?docId=workspace%3A%2F%2FSpacesStore%2F%2Fbd56-441d-9d3b-648629bf43e3&category=+-+Issuers+and+financial+disclosure&docVersion=1.0&langSwitch=true](http://www.amf-france.org/en_US/Reglementation/Doctrine/Doctrine-list/Doctrine?docId=workspace%3A%2F%2FSpacesStore%2F%2Fbd56-441d-9d3b-648629bf43e3&category=+-+Issuers+and+financial+disclosure&docVersion=1.0&langSwitch=true)

<sup>5</sup> Enforcement and Regulatory Activities of Accounting Enforcers in 2017, accessible at: [https://www.esma.europa.eu/sites/default/files/library/esma32-63-424\\_report\\_on\\_enforcement\\_activities\\_2017.pdf](https://www.esma.europa.eu/sites/default/files/library/esma32-63-424_report_on_enforcement_activities_2017.pdf)

## 4. Presentation of an additional financial statement

There is no obligation to present an additional financial statement at the start of the earliest period presented. Where the full retrospective method is used, the presentation of a “third balance sheet” (generally at 31 December 2016) is therefore only required in the 2018 annual accounts. But an entity can opt to give this information as from the 30 June accounts if it is materially

impacted by IFRS 15. Where the modified retrospective method is used, there is no obligation to present an additional financial statement at 1 January 2018 (i.e. 31 December 2017) in the 2018 annual accounts, nor in the 2018 interim accounts. However, this information can be relevant if an entity is significantly affected by IFRS 15.

## 5. Benchmark

The interim financial reports drafted at 31 March 2018 provide a useful benchmark even if few entities publish a quarterly financial report in application of IAS 34. Examples include:

– Airbus : [http://www.airbus.com/content/dam/corporate-topics/financial-and-company-information/Airbus\\_Financial\\_Results\\_Q12018\\_Financial\\_Statements.pdf](http://www.airbus.com/content/dam/corporate-topics/financial-and-company-information/Airbus_Financial_Results_Q12018_Financial_Statements.pdf)

– Bouygues : <https://www.bouygues.com/wp-content/uploads/2018/05/financial-statements-for-bouygues.pdf> et <https://www.bouygues.com/wp-content/uploads/2018/05/notes-to-the-financial-statements.pdf>

– Solvay : <https://www.solvay.com/en/binaries/q118-report-en-341211.pdf>

### Key points

- As from the 2018 interim accounts (generally drafted at 30 June), it is necessary to give detailed information on the first application of IFRS 15. The level of these disclosures depends on the extent of the impacts identified.
- The important information to be disclosed in the accounts at 30 June 2018 is as follows:
  - The choice of transitional arrangements;
  - The description of the accounting policies and methods used in accounting for revenue (if they are different from those presented in the last annual report available) and the main judgments applied. The information provided must be tailored to the particularities of the business lines within the group and should not merely reflect the main principles of the standard;
  - Quantitative disclosures should make it possible to measure the extent of the change of method:
    - For the full retrospective method: effect of the change for the financial statements line items impacted by IFRS 15 in the comparative periods presented (i.e. at least 2017);
    - For the modified retrospective method: effect of the change on the line items impacted by IFRS 15 in 2018.
  - Specific disclosures to be provided in the notes include a mandatory disaggregation of revenue by relevant categories, and any other information relevant to the entity and which needs to be disclosed as from the interim accounts (that is, without waiting for the publication of the annual accounts).



# A Closer Look

## Disclosures in the interim accounts under IFRS 9

Except for some insurance institutions, IFRS 9 on financial instruments came into effect for current reporting periods at 1 January 2018. So the 30 June 2018 interim accounts will be the first to be drawn up under this new standard. IFRS 9 has not amended IAS 34 on interim accounts, and no mandatory new information therefore needs to be provided in the notes to these financial statements. However, since this is the first application of a new standard, preparers must apply the provisions of IAS 8.28 on the disclosures to be provided in the event of change of accounting policy. It is also pertinent to draw on the information on transitional arrangements required in the annual accounts in order to provide relevant disclosures than can help readers to understand the impact of IFRS 9 on the financial statements.

Below we summarise the main issues arising in terms of financial information for industrial and commercial entities.

### Accounting policies and methods

Every entity must set out the consequences of IFRS 9 on its accounting policies and its choice of accounting methods. Only the aspects relative to the entity's activities should be addressed.

IFRS 9 also offers an option not to restate the 2017 comparative period. The entity's choice in this matter must be made clear.

### Classification of financial assets

For the great majority of industrial and commercial entities, this area will be limited to consolidated equity investments. Entities must therefore indicate how the instruments formerly classified as "available for sale" have been allocated to the two new categories in which these assets can be classified: FVPL and FVOCI. The quantified impact on retained earnings is also given, if it is material.

For entities with significant portfolios of investments in financial instruments not classified as cash equivalents (fund units, bond securities, etc.), a reconciliation table should be drawn up showing the old and new accounting categories and a quantification of any resulting changes in valuation.

### Impairment of trade and financial receivables

The approach to the impairment of financial receivables under IFRS 9 is significantly different from the method existing under IAS 39. It is therefore necessary for every entity to explain how it has applied these new provisions to its portfolios of loans and receivables. If several approaches co-exist, for instance reflecting the nature of the receivable (lease, short-term trade receivable, long term receivable, IFRS 15 contract assets, etc.), this must be reported and they must be clearly described.

In practice, although the methodology is changing significantly, the quantified impact will seldom be material. Where it is significant, the entity must present a reconciliation between the impairment recognised under IAS 39 and the amount presented in the opening balance sheet under IFRS 9, where applicable per category of receivable.

### Renegotiation of financial liabilities

IFRS 9 significantly amends the accounting treatment of modification, exchange, or debt restructuring operations that do not result in derecognition. The entities concerned must present the new accounting treatment, and, if material, its quantified impact and consequences for the statement of financial position and the statement of profit or loss.

### Hedge accounting

IFRS 9 opens up several new hedge accounting options, but few of these are mandatory (apart from the change in accounting methods for the time value of options). An entity must present its new accounting policies (both mandatory and optional) and the impact of these changes on the statement of financial position and the statement of profit or loss. Where material, the impacts observed at the transition date must be quantified.

### What next?

IFRS 9 has significantly changed the disclosures required in the notes to the annual accounts. Keep this in mind at the year-end!

# A Closer Look

## Standards and interpretations applicable at 30 June 2018

To coincide with the preparation of interim financial reports, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position 24 April 2018):

<http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520Endorsement%2520Status%2520Report%252024%2520April%25202018.pdf>

As a reminder, the following principles govern the first application of the IASB Standards and interpretations:

1. The IASB's exposure-drafts cannot be applied as they are not published standards.
2. The IFRS IC's draft interpretations may be applied if the two following conditions are met:
  - The draft does not conflict with currently applicable IFRSs;
  - The draft does not modify an existing interpretation which is currently mandatory.
3. Standards published but not yet adopted by the European Union may be applied if the European adoption process is completed before the interim financial reports have been approved by the relevant authority (i.e. usually the board of directors).

4. Interpretations published but not yet adopted by the European Union at the end of the interim financial reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that under IAS 34 "Interim Financial Reporting", the changes in accounting policies required by new standards must also be disclosed in the interim financial reporting published during the course of the year.

### 1. Situation of European Union adoption process for standards and amendments published by the IASB

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 30 June 2018
IFRS 9	Financial Instruments (issued on 24 July 2014)	1/01/2018 Early application permitted	29 November 2016 Effective for annual periods beginning on or after 1 January 2018	Mandatory
Amendments to IFRS 9	Prepayment Features with Negative Compensation (issued on 12 October 2017)	1/01/2019 Early application permitted	26 March 2018 Effective for annual periods beginning on or after 1 January 2019	Permitted
IFRS 14	Regulatory Deferral Accounts (issued on 30 January 2014)	1/01/2016 Early application permitted	<b>No endorsement</b> The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard	Not permitted
IFRS 15	Revenue from Contracts with Customers (issued on 28 May 2014), amendments to IFRS 15: Effective date (issued on 11 September 2015) and Clarifications to IFRS 15 (issued on 12 April 2016)	1/01/2018 Early application permitted	29 October 2016 and 9 November 2017 Effective for annual periods beginning on or after 1 January 2018	Mandatory



## 1. Situation of European Union adoption process for standards and amendments published by the IASB (end)

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 30 June 2018
IFRS 16	Leases (issued on 13 January 2016)	1/01/2019 Early application permitted	9 November 2017 Effective for annual periods beginning on or after 1 January 2019	Permitted (if IFRS 15 is applied)
IFRS 17	Insurance Contracts (issued on 18 May 2017)	1/01/2021 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)	1/01/2018 Early application permitted	9 November 2017 Effective for annual periods beginning on or after 1 January 2018	Mandatory
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	1/01/2018 Early application permitted	27 March 2018 Effective for annual periods beginning on or after 1 January 2018	Mandatory
Annual improvements to IFRSs 2014-2016 Cycle	Annual improvements to various Standards (issued on 8 December 2016)	1/01/2017 or 1/01/2018 Early application permitted for amendment to IAS 28	8 February 2018 Effective for annual periods beginning on or after 1 January 2018	Mandatory
Annual improvements to IFRSs 2015-2017 Cycle	Annual improvements to various Standards (issued on 12 December 2017)	1/01/2019 Early application permitted	Awaiting endorsement by the EU (expected in 2018)	Permitted <sup>(1)</sup>
Amendments to IAS 40	Transfers of Investment Property (issued on 8 December 2016)	1/01/2018 Early application permitted	15 March 2018 Effective for annual periods beginning on or after 1 January 2018	Mandatory
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	1/01/2019 Early application permitted at the same time as IFRS 9	Awaiting endorsement by the EU (expected in 2018)	Permitted <sup>(1)(2)</sup>
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	1/01/2019 Early application permitted	Awaiting endorsement by the EU (expected in 2018)	Permitted <sup>(1)</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	Postponed Early application permitted	Deferred	Permitted <sup>(2)</sup>
Amendments to the Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1/01/2020	Awaiting endorsement by the EU (expected in 2019)	Not permitted

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) If the entity had not developed an accounting policy

## 2. Situation of European Union adoption process for interpretations published by the IFRS IC

Interpretation	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 30 June 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	1/01/2018 Early application permitted	3 April 2018 Effective for annual periods beginning on or after 1 January 2018	Mandatory
IFRIC 23	Uncertainty over Income Tax Treatments (issued on 7 June 2017))	1/01/2019 Early application permitted	Awaiting endorsement by the EU (expected Q3 2018)	Permitted <sup>(2)</sup>

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) If the entity had not developed an accounting policy

# Events and FAQ

## Frequently asked questions

### IFRS

- Agent/principal distinction
- Tax on a hedged loan in a Net Investment Hedge
- Assets intended for sale and discontinued activities
- Treatment of costs incurred by a legal acquirer in a reverse acquisition
- Business combinations: how to account for a dividend clause exclusively benefitting the acquirer.

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

IFRS		EFRAG	
IASB	Committee	Board	TEG
18-22 June	11-12 September	3 July	5 July
16-20 July	27-28 November	21 August	25 July
17-21 September	-	3 September	5-6 September

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