# Year-end accounting update

**November 2022**

EY

Building a better working world

# Presenters

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# AGENDA

# 01

# In the spotlight

# IFRS updates: 2022 / 2023

# New IFRS standards, amendments, and interpretations

| Effective for periods beginning on or after 1 January 2022 / 2023 | 2022 | 2023 |
|---|---|---|
| Reference to Conceptual Framework (*Amendments to International Financial Reporting Standard (IFRS) 3 Business Combinations*) | ✓ | |
| Property, Plant and Equipment: Proceeds before Intended Use (*Amendments to International Accounting Standard (IAS) 16 Property, Plant and Equipment*) | ✓ | |
| Onerous Contracts – Costs of Fulfilling a Contract (*Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets*) | ✓ | |
| Annual Improvements Process (AIP): 2018-2020 cycle* | ✓ | |
| IFRS 17 *Insurance Contracts* | | ✓ |

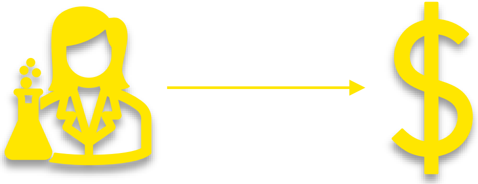
* Amendments to: IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Subsidiary as a first-time adopter), **IFRS 9 *Financial Instruments* (Fees in the '10 per cent' test for derecognition of financial liabilities)**, IAS 41 *Agriculture* (Taxation in fair value measurements), and IFRS 16 *Leases* (Lease incentives Illustrative Example 13)

# Proceeds before intended use

# Property, Plant and Equipment ('PPE'): Proceeds before intended use (Amendments to IAS 16)

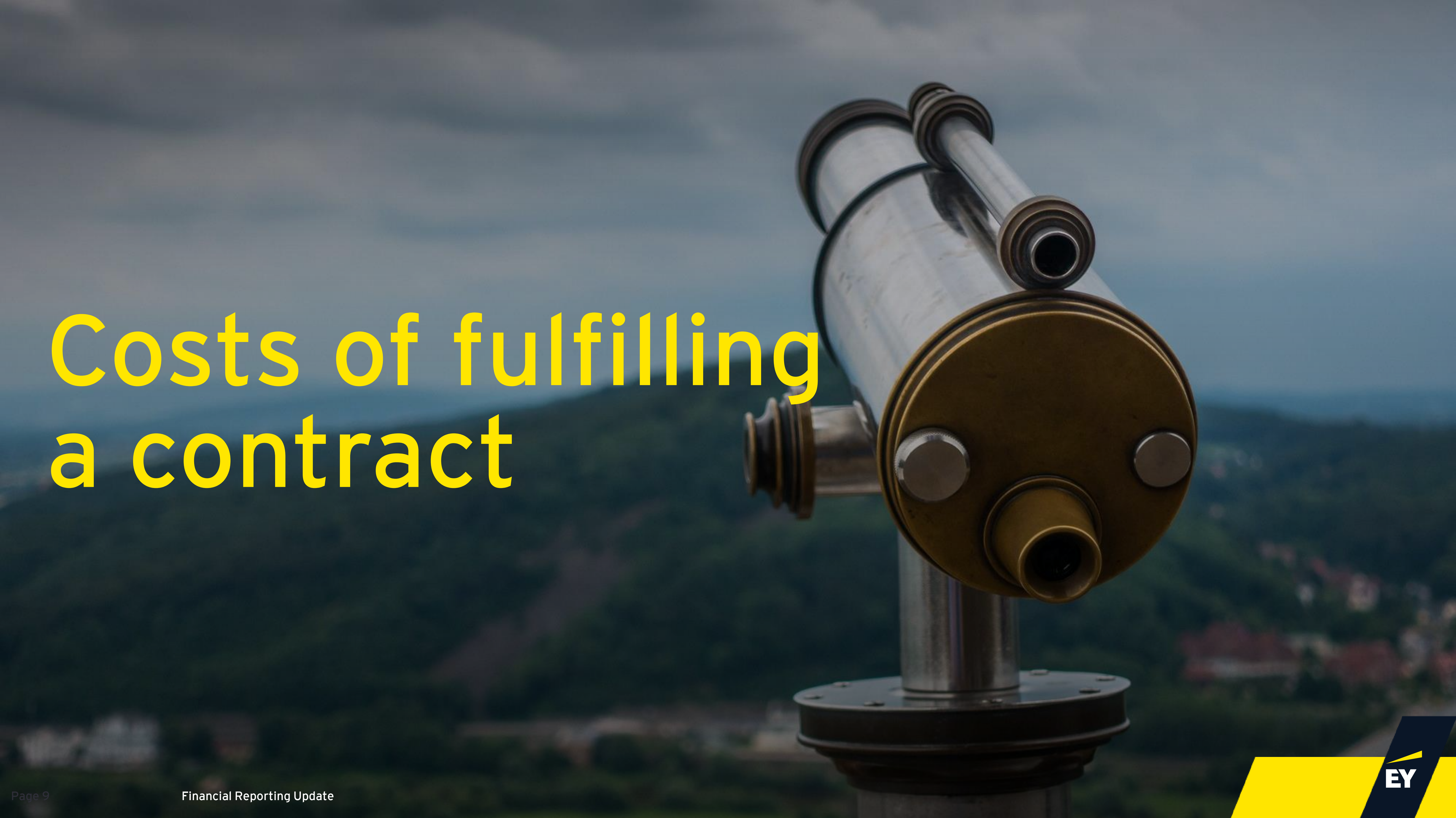
## 2022

Q Can the proceeds from sale of items produced during the testing phase of PPE be deducted from the cost of that item of PPE ?



Profit or loss

Deducted from the cost of item of PPE



# Costs of fulfilling a contract

# Onerous Contracts – Costs of fulfilling a contract (Amendments to IAS 37)

## 2022

**Q** Which costs should an entity include when assessing whether a contract is onerous / loss-making **?**

**Judgement** required in determining 'directly related' IFRS 15 *Revenue from Contracts with Customers* guidance

✓ Incremental costs and directly related costs

✗ General and administrative costs
*(unless explicitly chargeable to the counterparty under the contract)*

# Fees in the '10 per cent' test

# AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

## Financial liability modifications

| Payment holidays? | Extension of term? | Interest rate concessions? |
|---|---|---|

## Is it a substantial modification?

**Quantitative "10% test":**
- comparison of the cash flows before & after modification
- discounted at the original effective interest rate ("EIR")

&

**Qualitative test:**
- change in currency
- counterparty
- equity features

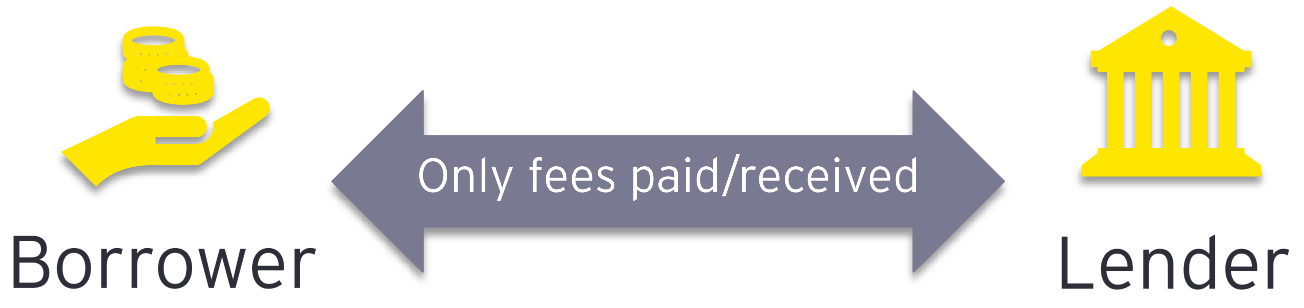
**MET**
- derecognise old liability
- recognise new liability at fair value
- recognise gain / loss

**NOT MET**
- keep old loan
- recognise modification gain/loss

# AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

## 2022

**Q Which fees should be included when applying the 10% test ?**




**(including fees paid or received by either the borrower or lender on the other's behalf)*

# IFRS 17

# IFRS 17 - Insurance contracts: Timeline

We are here (2022)

Effective date (2023)

2020 | 2021 | 2022 | 2023 | 2024

Implementation period

Reporting

- Finalisation of amendments to IFRS 17
- Start of IFRS 17 comparative period
- IAS 8 disclosures required regarding expected impact of adoption
- IFRS 17 is effective (1 January 2023) Early application permitted
- First IFRS 17 compliant annual reports published

# IFRS 17: Disclosure of expected impact

## 2022

**IAS 8.30:**

When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

a) this fact; AND

b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

IAS 8.31

An entity is required to include a discussion of the impact that the initial application of the IFRS is expected to have on the entity's financial statements.

# IFRS 17: Disclosure required as at December 2022

**2022**

Generic statements are NOT acceptable at this stage – **detailed disclosure is expected**

Engagement with auditors is critical

Disclosures are aimed at informing users of the entities **readiness** for implementation:

- What is outstanding and why?
- Where is the entity in the process of implementing IFRS 17?
- What decisions are yet to be made?
- Impact of implementation
  - Directional disclosures
  - Range of quantitative impact (if audited)

**Accurate and relevant information** … **that is available and auditable**

# Common disclosure pitfalls

# Proactive monitoring limited scope thematic review

# Common disclosure pitfalls: JSE thematic review

| | |
|---|---|
| **Statement of cash flows (SCF) and related disclosures** | |
| 1 | Incorrect classification of cash flows |
| 2 | Inappropriate treatment of non-cash flow items |
| 3 | Insufficient disclosure of restricted cash |
| 4 | Discrepancies between amounts and reasoning / relationship to amounts reported in the Statement of Cash flows ('SCF') and other areas of financial reports |
| 5 | Debt covenant disclosure not useful to a user's understanding |
| 6 | Insufficient disclosure of changes in liabilities arising from financing activities |
| **Liquidity risk disclosure** | |
| 7 | Liquidity risk disclosure insufficiently detailed |
| **Going concern disclosure** | |
| 8 | Going concern disclosure generic and not specific to the entity |

# SCF and related disclosures

# Common disclosure pitfalls: JSE thematic review

## Common errors in classification of cash flows

IFRS 3 **acquisition-related costs**

**Changes in ownership interests** that do **NOT** result in loss of control in consolidated results

**Bank overdrafts** included within C&CE if IAS 7.8 requirements are met

| Statement of cash flows for the period ended xxx |
|---|
| Operating activities |
| Investing activities |
| Financing activities |
| Cash and Cash equivalents (C&CE) |

Exercise caution when classifying contingent or deferred consideration

# Common disclosure pitfalls: JSE thematic review

## Disclosure of restricted cash and cash equivalents

**Minimum balance required** by a bank on an account

**Collateral** for a line of credit

Cash **formally set aside** for a specific project as a result of regulation

?

How to determine if the restricted cash and cash equivalents balance is eligible for classification as cash and cash equivalent? Assess:

- Nature of restriction
- Terms and conditions relating to the access to the funds



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# Common disclosure pitfalls: JSE thematic review

## Example of restricted cash disclosure

The Group has pledged a part of its short-term deposits to fulfil collateral requirements. Refer to Note 21.5 for further details.

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

| | 2022 | 2021 |
|---|---|---|
| | €000 | €000 |
| Cash at banks and on hand | 11,732 | 11,125 |
| Short-term deposits | 5,796 | 3,791 |
| Cash at banks and short-term deposits attributable to discontinued operations | 1,294 | – |
| | 18,822 | 14,916 |
| Bank overdrafts | (966) | (2,650) |
| **Cash and cash equivalents** | **17,856** | **12,266** |

Source: Applying IFRS Good Group (International) Limited Illustrative consolidated financial statements for the year ended 31 December 2022 International GAAP®

# Common disclosure pitfalls: JSE thematic review

## Debt covenant disclosures

Investors require insights regarding the future cash flow position of the issuer in terms of:

- Debt covenant triggers
- Proximity to breaching those triggers
- Management's view of debt levels and how any potential debt covenant triggers can be addressed

**Link to IFRS disclosures:**

- Going concern
- Management of capital
- Risk management disclosures

*Need to consider disclosing the following:*

- Whether covenants have been breached or not
- Target covenants
- Performance/position against target

# Common disclosure pitfalls: JSE thematic review

## IAS 7.44A Changes in liabilities from financing activities

**Purpose** — Reconcile the statement of financial position (SFP) opening balance to SFP closing balance and separately disclose the cash flows movements

Include all liabilities in financing activities

Include reconciliation of lease liabilities

Ensure adequate detail in reconciliation, avoid over aggregation

Include derivative liabilities (if financing in nature)

Should link to SFP

| | 2021 Rm |
|---|---|
| **Reconciliation of long-term borrowings** | |
| Opening balance | 70 766 |
| Incurred through XXX business combination | – |
| Proceeds from borrowings raised | 3 722 |
| Repayment of borrowings | (8 983) |
| Accrued interest | 3 083 |
| Interest paid | (3 082) |
| Fair value adjustments | 375 |
| Foreign exchange differences | (3 934) |
| **Closing balance** | 61 947 |

| Reconciliation of lease liabilities | |
|---|---|
| As at 2020 | 2 685 717 |
| Additions | 1 034 678 |
| New stores | 324 860 |
| Renewals | 709 818 |
| Interest | 197 677 |
| Continuing operations | 196 022 |
| Discontinued operations | 1 655 |
| Payments | (984 542) |
| Remeasurements, modifications and terminations | (10 616) |
| As at 2021 | 2 922 914 |

Extract from the JSE's Proactive Monitoring Limited scope thematic review: Cash flow information and disclosures of liquidity and going concern, 6 October 2022

# Other risk disclosures

# Common disclosure pitfalls: JSE thematic review

## Liquidity risk

**Minimal / no liquidity risk:**
Appropriate to have minimal disclosures if risk is not relevant/material

**Liquidity risk / concerns exist:**
Finding: Almost no insight provided as to how the entity planned to address liquidity constraints

Information should be relevant and specific to the entity's liquidity risk exposure

## Findings relating to IFRS 7.39 Maturity analysis

- Lease liabilities excluded from analysis
- Must be presented on an undiscounted basis
- Over-aggregation resulting in non-useful information (such as providing no more information than that available in the SoFP)

JSE Proactive Monitoring Report

# Common disclosure pitfalls: JSE thematic review

## Going concern disclosures

Company specific

The directors have considered the group's projected cash flows for a period of 12 months following the date of issue of this report. The projected cash flows are based on the operating budgets approved by the board, which in turn are based on detailed operating plans prepared by the executives and approved by the board.

The following broad principles have been applied in setting the budgets:

- Restaurant turnovers (and resulting group revenue) are budgeted based on actual turnovers achieved over the past 12 months, taking cognisance of the group's experience during the first and second waves of infection. While the impact of subsequent waves of infection has not been specifically budgeted for, a conservative outlook has been adopted such that turnovers are budgeted to be lower than pre-COVID-19 levels in nominal terms until June 2022. It is anticipated that the roll out of vaccines locally should culminate in a reasonable degree of community immunity by the end of the 2022 financial year. Turnovers are accordingly expected to recover to 2019 financial year turnovers in nominal terms only during the 2023 financial year.
- Expense budgets are in line with actual costs incurred for the second half of the 2021 financial year, adjusted by inflation, known changes in operating capacity and the impact of key strategic projects. Most of the group's costs are relatively fixed in the short term and can therefore be forecast with a relatively high confidence level.

Based on the base case budgeted cash flows, the group will be able to meet its financial obligations for a period of at least 12 months from the date of this report.

In order to mitigate the significant uncertainty regarding the continuing financial impact of COVID-19 on the group and its impact on the going concern assessment, the board has considered alternative likely scenarios, all of which indicate that the group will be able to meet its obligations for a period of 12 months from the date of this report.

The break-even scenario indicates that, in the event that budgeted costs continue to be incurred, revenue would need to fall to 24% of that budgeted for the 12 months for the group's cash flow reserves to be exhausted by The directors consider the probability of this scenario materialising to be negligible, given the group's experience of the first, second and third waves. On this basis, the board has concluded that it is satisfied that the group will continue to trade as a going concern for at least a period of 12 months from the date of this report, and the financial statements have therefore been prepared on this basis.

Indication of the period over which going concern assessment is considered

Different scenarios or judgments considered

Quantitative information

Extract from the JSE's Proactive Monitoring Limited scope thematic review: Cash flow information and disclosures of liquidity and going concern, 6 October 2022

# Report on Proactive Monitoring of financial statements in 2022

# Common disclosure pitfalls: JSE Proactive monitoring report

| JSE Proactive Monitoring Report findings |
| --- |
| The 'geography of the income statement' |
| Inclusion of non-cash items within the statement of cash flows |
| Incorrect classification of 'loan' to an associate |
| Inadequate financial instrument disclosures |
| Disclosure omissions in interim reports |
| Issues in disaggregation of revenue |
| Insufficient fair value measurement disclosures |
| Taxation disclosure issues |
| Insufficient detail provided for impairment of assets |
| Material income and expenses in the segmental report |

Liquidity risk
Credit risk rating grades
Class of financial instruments
Other

Issued 4 November 2022

# Common disclosure pitfalls: JSE Proactive monitoring report

## The ‘geography of the income statement’

Mixed presentation between nature and function method

Usage and naming of subtotals

Additional subtotals may **NOT** be displayed more prominently than IFRS subtotals

# Common disclosure pitfalls: JSE Proactive monitoring report

**The 'geography of the income statement'**

"Operating profit"

Representative of activities that would normally be considered to be "operating"

Should be consistent with policies

*Preparers should ensure consistency and understandability*

Inappropriate to exclude items from such a subtotal on the basis that:

- it is industry practice
- they occur irregularly or infrequently
- amount is unusual
- does not involve cash flows (e.g. depreciation/ amortisation)

# Common disclosure pitfalls: JSE Proactive monitoring report

## Classification of off-market loans

Classification drives IFRS 7 disclosure requirements

Initial recognition at fair value

FV ≠ Amount **received**/paid

Difference is recognised as **equity contribution** / part of the investment

Classification criteria, specifically cash flow characteristics test

*Consider all facts and circumstances*

<u>Subsequent measurement</u>
Either at Amortised cost or at fair value

# Common disclosure pitfalls: JSE Proactive monitoring report

## Credit risk rating grades

IFRS 7.35M requires (amongst others) entities to disclose, by credit risk rating grades, the gross carrying amount of financial assets and their exposure to credit risk

Number of credit risk rating grades shall be consistent with number that the entity reports to KMP for credit risk management purposes

Qualitative and quantitative information

Provide detail to explain what each of the grades represents

# Common disclosure pitfalls: JSE Proactive monitoring report

Same level of detail for interim reporting

## Disaggregation of revenue

"Unavailability of information is not a sufficient reason for non-compliance with disclosure requirements"

Consider different economic factors within regions for disaggregation (Europe vs. Russia vs. China)

Consider sales channels and respective weightings

Process applied to determining the appropriate levels of aggregation is dynamic

IFRS 8

**Link disaggregated revenue disclosure to segments**

**Disclose sufficient information to understand relationship between disaggregation of revenue and revenue per reporting segment**

Segmental information is not the only information to consider when disaggregating revenue

IFRS 15.115

# IFRS Interpretations Committee updates

# Agenda decisions

**Issues / Questions submitted to IFRS Interpretations Committee**

*Outcome of the discussions will be either:*

No need to comment - current guidance is clear

(Agenda decision)

OR

The Committee will issue an interpretation standard

(IFRIC)

OR

The Committee will recommend to the IASB that an amendment is made (to IAS or IFRS)

# Agenda decisions

| Description | Standard | Decision |
|---|---|---|
| | | |
| Economic benefits from use of a windfarm | IFRS 16 | Final |
| TLTRO III transactions | IFRS 9/IAS 20 | Final |
| Demand deposits with restrictions on use | IAS 7 | Final |
| Transfer of insurance coverage under a group of annuity contracts | IFRS 17 | Final |
| Lessor forgiveness of lease payments | IFRS 9/16 | Final |
| Negative low emission vehicle credits | IAS 37 | Final |
| Principal versus Agent: software reseller | IFRS 15 | Final |
| SPAC: Accounting for warrants at acquisition | IAS 32/IFRS 3 | Final |
| SPAC: Classification of public shares as financial liabilities or equity | IAS 32 | Tentative |
| Cash received via electronic transfer as settlement for a financial asset | IFRS 9 | Tentative |

# Demand deposits with restrictions on use

# Demand deposits with restrictions on use arising from a contract with a third party

**Q**

Does an entity classify demand deposits as cash and cash equivalents if use of the asset is subject to third party contractual restriction?

Restrictions on use of a demand deposit arising from a contract with a third party do not result in the deposit not being cash, unless restrictions change the nature of the deposit in a way that it would not meet the definition of cash in IAS 7.

**A**

# Demand deposits with restrictions on use arising from a contract with a third party

Cash comprises cash on hand and demand deposits

Classification of an item as **cash** depends only on the **nature** of the item while classification as **cash equivalents** depends also on the **purpose** for which an item is held.

**An entity is required to disclose:**

- Components of cash and cash equivalents
- Information about significant cash and cash equivalent balances held by the entity that are not available for use by the group

# Lessor forgiveness of lease payments

# Lessor forgiveness of lease payments

## Fact pattern:

- Lessor grants a concession to the lessee by legally releasing the lessee from its obligation to make lease payments that are contractually due and future amounts not yet due.
- Before the date that rent concession is granted, the lessor had applied the expected credit loss (ECL) model in IFRS 9 to the operating lease receivable.

Q

1) How should the lessor apply the ECL model in IFRS 9 to the operating lease receivable when it **expects** to forgive payments due from the lessee under the lease contract **before** the rent concession is granted?

2) Should the lessor apply the **derecognition requirements in IFRS 9 OR the lease modification requirements in IFRS 16** to account for the rent concession?

# Lessor forgiveness of lease payments

**Rent concession granted**

<u>Operating lease receivable:</u>

IFRS 9 impairment requirements applied

*ECL =*

*Cash flows due to lessor – cash flows expected to be received*

**Recognised operating lease receivable:** Apply IFRS 9 derecognition requirements to forgiven portion

**Forgiven lease payments NOT included in the lease receivable:** IFRS 16 lease modification requirements

# Sustainability reporting update

# Sustainability reporting update

JSE finalised their '**Sustainability and Climate Disclosure Guidance**' in June 2022

**Key differences from the ISSB's exposure drafts:**

- To be included in annual report
- Double materiality
- Treatment of scope 3 emissions only if appropriate
- Targeted at multiple stakeholders

Link: JSE's Sustainability and Climate Disclosure Guidance | Johannesburg Stock Exchange

# 02

# On the horizon

# IFRS updates: 2023/2024

# New IFRS standards, amendments, and interpretations

| Effective for periods beginning on or after 1 January 2023 | | |
|---|---|---|
| | 2023 | 2024 |
| Disclosure of Accounting Policies (*Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2*) | ✓ | |
| Definition of Accounting Estimates (*Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*) | ✓ | |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction (*Amendments to IAS 12 Income Taxes*) | ✓ | |
| Classification of Liabilities as current or non-current (*Amendments to IAS 1 Presentation of Financial Statements*) | | ✓ |
| Non-current Liabilities with Covenants (*Amendments to IAS 1 Presentation of Financial Statements*) | | ✓ |
| IFRS 17 *Insurance Contracts* | ✓ | |

# Deferred tax related to assets and liabilities arising from a single transaction

# Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

## 2023

### Change to the liability* recognition criteria

A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
(a) ...
(b) the initial recognition of an asset or liability in a transaction which:
(i) ...
(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and
(iii) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

Original initial recognition exemption

New text added

*Similar text was added to the recognition criteria for deferred tax assets

## Items likely to be affected:

- Decommissioning liabilities
- Lease liabilities and ROU assets

# Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

## 2023

Before the amendment different approaches were applied in practice

| After amendment | |
|---|---|
| **On initial recognition** | |
| Deductions relate to **assets** and interest | Deductions relate to **liabilities and interest** |
| No temporary difference on initial recognition | Temporary difference on initial recognition |
| | Initial recognition exemption does NOT apply |
| Deferred tax **after** initial recognition | **Deferred tax FROM initial recognition** |

# IAS 1 amendments

# Classification of Liabilities as Current or Non-current - Amendments to IAS 1

## 2024

A liability is classified as <u>**current**</u> when:

a) Settlement expected within normal operating cycle
b) Held primarily for purpose of trading
c) Due to be settled within 12 months after reporting date
d) **it does not have** ~~an unconditional~~ **the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.** ~~Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.~~

Amendment

**Classification is unaffected by management's intention to exercise right to defer**

# Non-current Liabilities with Covenants - Amendments to IAS 1

## 2024

## Classification of Liabilities with Covenants

### Classification as current or non-current

A company would classify liabilities as current or non-current based on its **compliance with covenants / specified conditions** only on or before the **reporting date**

### Disclosure

*Par 76ZA*

**Disclose information** in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period

# Recent exposure drafts


EY

# Recent exposure drafts

| Recent exposure drafts (EDs) |
| --- |
| Exposure Draft ED/2019/7: General Presentation and Disclosures |
| Exposure Draft ED/2021/1: Regulatory Assets and Regulatory Liabilities |
| Exposure Draft ED/2021/3: Disclosure Requirements in IFRS Standards—A Pilot Approach |
| Exposure Draft ED/2021/4: Lack of Exchangeability |
| Exposure Draft ED/2021/6: Management Commentary |
| Exposure Draft ED/2021/7: Subsidiaries without Public Accountability |
| Exposure Draft ED/2021/10: Supplier Finance Arrangements |

# Subsidiaries without public accountability

# Exposure Draft ED/2021/7: Subsidiaries without Public Accountability

- Applies IFRS
- Parent prepares consolidated financial statements for public use

- No public accountability

An entity has public accountability if: *"its **debt or equity instruments are traded in a public market** or it is in the process of issuing such instruments for trading in a public market or it **holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses**".*

Optional reduced disclosure requirements, BUT still required to apply the recognition, measurement and presentation requirements of IFRS Standards

# Supplier finance arrangements

# Exposure Draft ED/2021/10: Supplier Finance Arrangements

## Proposed amendments to IAS 7 and IFRS 7

### Background:

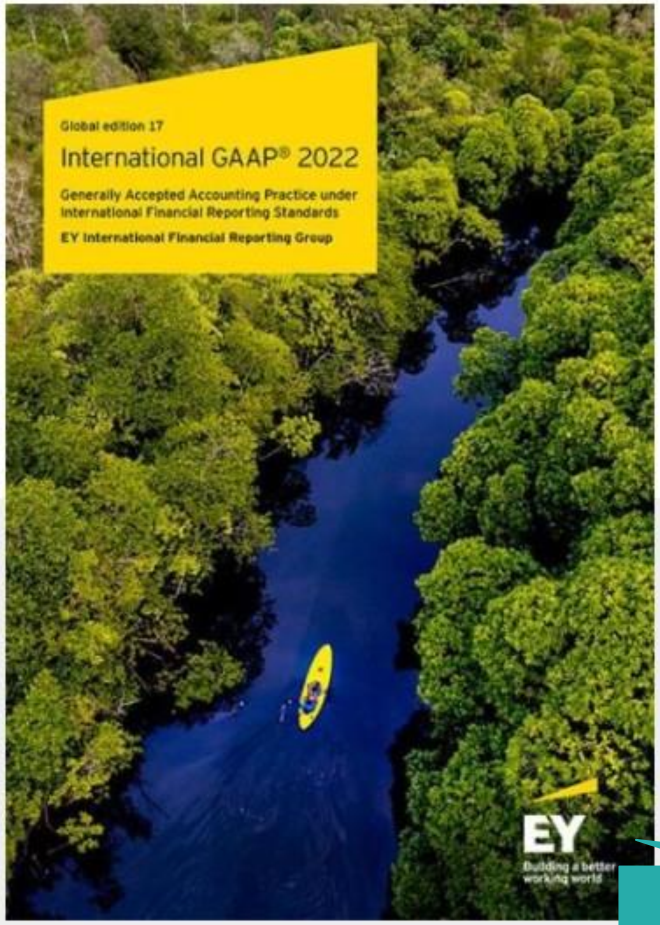
How to present liabilities and cash flows relating to supplier finance arrangements?

What information is an entity required to disclose?

- **Presentation of liabilities**
  - Part of 'trade and other payables' or
  - Separately
- **Presentation of cash flows**
  - Presentation of liabilities in SOFP will help determine classification of cash flows
- **Disclosures**
  - IFRS 7: Liquidity risks
  - IAS 7: Changes in liabilities arising from financing activities
  - IAS 1: Significant judgements and other relevant information

# One minute recap

# Resources

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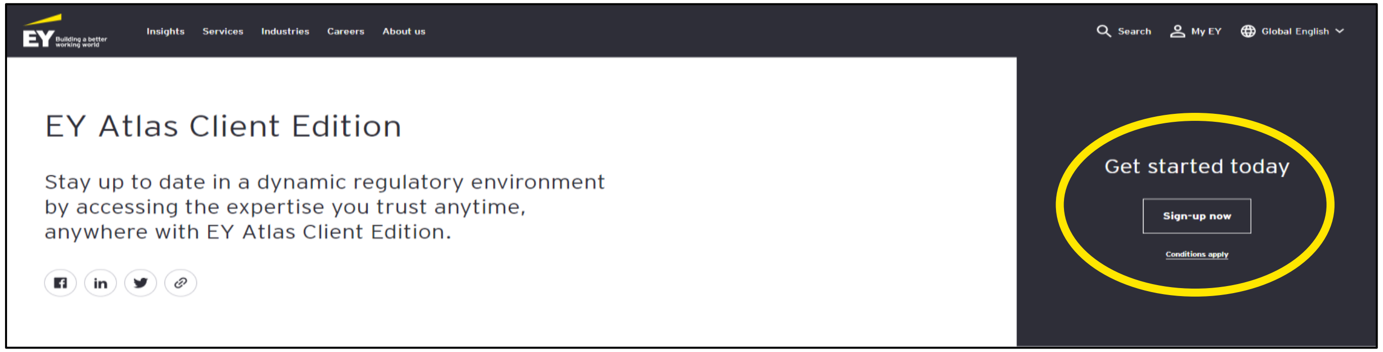
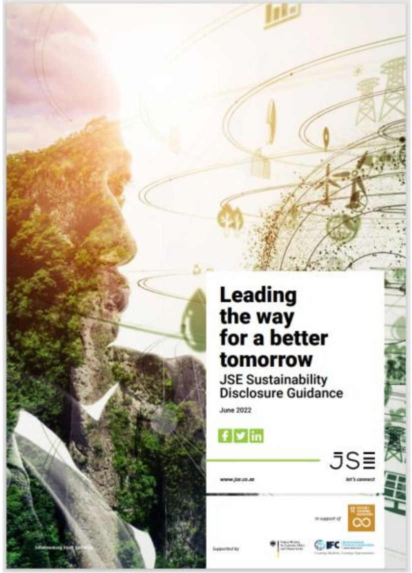



Latest edition available in January 2023!

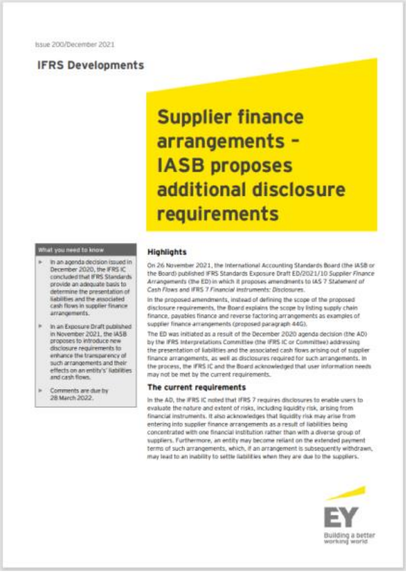
# Resources


JSE thematic review


JSE Proactive Monitoring Report



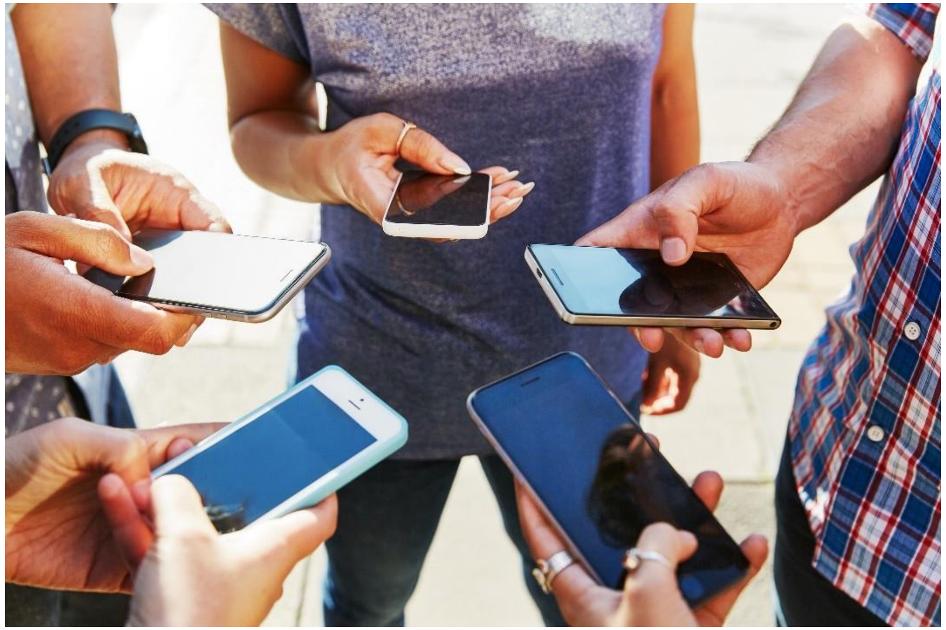

JSE Sustainability Disclosure Guidance




'IFRS Developments' documents

# Feedback

Please provide us with feedback on the session you attended:



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