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IFRS Update 2014

Government Professional Development Week

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Agenda

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Session 3: Practical Application Issues

i. Impairment of non-financial assets

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Objectives for the Day

1) To discuss newly effective IFRS standards in 2014.
2) To discuss standards that are issued but not yet effective and assess their impact on financial reporting in future periods.
3) Discuss practical issues with respect to the application of IFRS.

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iii. Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

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Session 3: Practical Application Issues

i. Impairment of non financial assets

Conclusion

Session 1 Objectives

1) To provide background to the standards that are newly effective this year.
2) To assess the impact of the new standards on Government entities.
3) To discuss the practical application issues associated with the newly effective standards.

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IFRS . . . newly effective standards

Effective Date	Standards	Effective in June 2014
Annual periods beginning on or after 1 Jan 2013	*Government Loans (Amendments to IFRS 1)*	●
	Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	●
	IFRS 10 *Consolidated Financial Statements*	●
	IFRS 11 *Joint Arrangements*	●
	IFRS 12 *Disclosure of Interests in Other Entities*	●
	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	●
	IFRS 13 *Fair Value Measurements*	●
	IAS 19 *Employee Benefits (2011)*	●

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IFRS . . . newly effective standards . . . (cont)

Effective Date	Standards	Effective in June 2014
Annual periods beginning on or after 1 Jan 13	IAS 27 *Separate Financial Statements (2011)*	●
	IAS 28 *Investments in Associates and Joint Ventures*	●
	IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	●
	Annual Improvements to IFRS 2009 -2011 Cycle	●

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Government Loans - (Amendments to IFRS 1)

13 March 2012
Amendment Published

1 January 2013
Date of adoption

30 June 2014
Date of first annual financial statements in which Amendments to IFRS 1 are applied

Overview

- The amendment adds a new exception to the retrospective application of IFRS.
- Standard deals with government loans that are issued at below market interest rates and allows a first time adopter to apply the measurement requirements of the financial instrument standards prospectively from the date of transition to IFRS.
- Available election to retrospectively apply measurement requirements, if information needed is available.

How to apply the common disclosure requirements

- For a first time adopter, the previous GAAP carrying amount of a government loan with a below market rate of interest is the carrying amount of the loan in its opening IFRS Statement of Financial Position.
- Subsequently, the entity measures the loan at amortised cost using an effective interest rate calculated at the date of transition.
- Fair value option available.

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Government Loans

K-Man Travel Company is a local bus company that provides public transport in the Cayman Islands. K-Man receives buses from the Government, the Government is also the sole shareholder of the bus company and a similar contribution is not available to other bus companies. There are no further conditions attached to the contribution of the buses, but there is a general expectation that the K-Man Travel will provide service to the local community. What is the proper accounting for the contributed assets?

Solution: Government is acting in its capacity as a shareholder therefore contribution should be recognised as a capital contribution.

Rationale: K-Man needs to assess whether the government is acting in its capacity as Government or as a shareholder. If there are no conditions attached to a government contribution requiring the entity to comply with certain conditions, then that contribution is most likely not a government grant. In addition, contribution is not available to other entities. ***IAS20.3***

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Government Loans

Blue-Skies Airways is launching an airline to service the busy route between Grand Cayman and Cayman Brac. The Cayman Islands Government provides Blue Skies with funding to finance the launch. The financing is in the form of a loan that will be repayable by Blue Skies if the business is successful, but the amount advanced will not be repaid if the airline is launched but the business is unsuccessful. How should Blue Skies account for this funding?

Solution: Loan is recognised as a liability.

Rationale: A forgivable loan is treated as a government grant only when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan. ***IAS20.10***

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Government Loans

In addition to the forgivable loan, Blue Skies has also managed to secure funding in the form of shareholder loans at a rate that is considered to be below market rates. How should this loan be measured at initial recognition?

Solution: Fair value (plus transaction costs) = Present value of expected future cashflows, discounted using a market-related rate.

Rationale: Any difference between the amount lent and the fair value of the instrument on initial recognition is recognised as a gain or loss unless it qualifies for recognition as an asset or a liability. ***IAS39.AG64***

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Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

16 December 2011
Amendment Published

1 January 2013
Date of adoption

30 June 2014
Date of first annual financial statements in which Amendments to IFRS 7 are applied

Overview

- The IASB and the FASB are no longer pursuing a converged offsetting model.
- However, the Boards have issued common requirements to:
  - Disclose the (potential) effects of netting arrangements; and
  - Improve comparability between financial statements prepared under US GAAP with those prepared under IFRS.

How to apply the common disclosure requirements

- Minimum quantitative disclosures:
  - Indentify the scope;
  - Determine level of (dis)aggregation; and
  - Calculate the amounts;
- Describe types and nature of rights of set-off that do not qualify for offsetting; and
- Determine whether additional disclosures are required.

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Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

16 December 2011
Amendment Published

1 January 2014
Date of adoption

30 June 2015
Date of first annual financial statements in which Amendments to IAS 32 are applied

Overview

- An entity currently has a legally enforceable right to set-off if that right is:
  - Not contingent on a future event; and
  - Enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.
- Certain types of gross settlement are equivalent to net settlement.

How to apply the clarified offsetting criteria

- Assess whether the entity currently has a legally enforceable right of set-off.
- Assess whether the entity intends to settle:
  - Net or simultaneously; or
  - Through a system that is equivalent to net settlement.
- Set-off qualifying amounts.

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Offsetting

Lotsa Turtles has entered into a master netting agreement with its Banker because they undertake a number of financial instrument transactions together. The agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Would the contracts that are subject to the master netting arrangement qualify for offsetting?

Solution: No.

Rationale: The master netting arrangement does not provide a basis for offsetting unless both of the offsetting criteria are met i.e legally enforceable right and an intention to settle net or simultaneously. ***IAS32.50***

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IFRS 10 Consolidated Financial Statements

12 May 2011
Standard published

1 January 2012

Retrospective application

28 June 2012

Transitional amendments published

1 January 2013
Date of initial application

30 June 2014
First annual financial statements in which standard would apply

Overview

- IFRS 10 introduces a single control model for all entities
- Changes likely are mainly around power: substantive rights; de facto control over relevant activities; key relationships with suppliers
- Retrospective application limited to one year of comparatives; prospective disclosures for unconsolidated structured entities

How to apply the standard

- Identify the investee, the relevant activities of the investee and how decisions about the relevant activities are made
- Assess whether the reporting entity has power over the relevant activities and is exposed to variability in returns
- Changes that may affect the consolidation assessment include potential voting rights, de facto control and interests in structured entities

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Old vs new requirements

	2008 standards	IFRS 10
Exemptions from preparing consolidated financial statements	Similar requirements	
Determination of investees to be consolidated	IAS 27 control model SIC-12 R&R model	New single control model
Consolidation procedures	Similar requirements	

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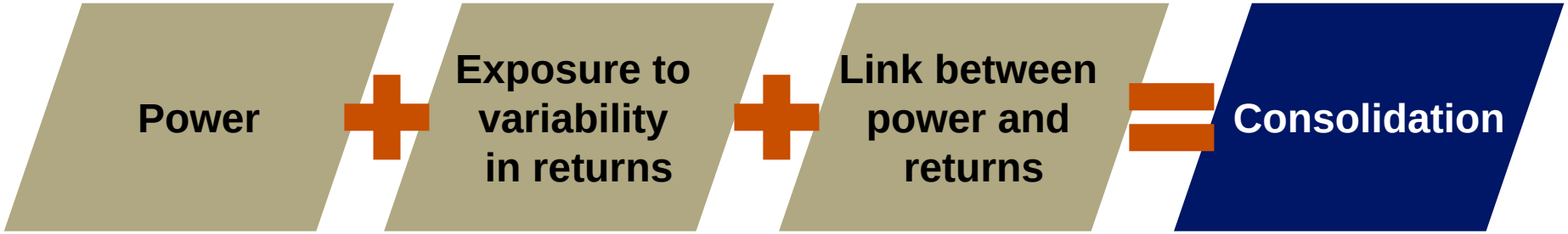
The model in one slide



To have power, it is necessary for investor to have existing rights that give it ***current ability*** to direct activities that significantly affect investee's returns (i.e. the ***relevant activities***).

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The single control model

1. Identify investee (legal entity or silo).
2. Identify relevant activities of investee.
3. Identify how decisions about relevant activities are made.
4. Assess whether investor has power over relevant activities.
5. Assess whether investor is exposed to variability in returns.
6. Assess whether there is a link between power and returns.

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Consolidation

Cayman Wind Parks is a wholly owned subsidiary of Cayman Energy, a Government entity. Cayman Wind Parks' only substantive assets are wind turbines and long term contracts are in place for the sale of electricity generated to customers. Cayman Wind Parks has minimal equity and is fully financed by a loan from Bank B. The loan agreement gives Bank B the right to take ownership of the shares in Cayman Wind Parks in the event of default. 2 years after commencing operations, due to unfavorable wind patterns Cayman Wind Parks has not been profitable and its financial position has deteriorated to the extent that a buyer is being sought for the assets. As a result of its trading position, Cayman Wind Parks defaults on the loan to B, which now has the right to call the shares in the Company. Assess the consolidation impact of the change in circumstance for Cayman Wind Parks.

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Consolidation

Initial assessment: Cayman Energy consolidates Cayman Windparks.

Rationale: Bank B's rights are designed to protect the interests of the bank without giving it power over Cayman Windparks. ***IFRS10.B26 – B27***

Subsequent assessment: Cayman Energy should deconsolidate, and the Bank will now consolidate Cayman Windparks.

Rationale: After the default, the Bank's rights are significant and it can make all decisions related to the operations of Cayman Windparks on a unilateral basis. The relevant activities of Cayman Windparks were originally focused on generating a return for investors, they have now narrowed to making decisions that will minimize losses to the Bank. The Bank has power, is exposed to variable returns by virtue of the loan and there is a link between power and returns . ***IFRS10.B26 – B27***

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IFRS 11 Joint Arrangements

12 May 2011
Standard published

1 January 2012

Retrospective application

28 June 2012

Transitional amendments published

1 January 2013
Date of initial application

30 June 2014
First annual financial statements in which standard would apply

Overview

- IFRS 11 divides joint arrangements into two types:
  - **Joint ventures** – parties have right to the net assets of the arrangement. Equity accounting required
  - **Joint operations** – parties have rights to the assets and obligations for the liabilities relating to the arrangement. Recognises own assets and liabilities
- Retrospective application limited to one year of comparatives

How to apply the standard

- Determine whether joint control exists
- Determine the type of joint arrangement by considering:
  - the structure
  - the legal form
  - the contractual arrangement
  - other facts and circumstances (in-substance test)

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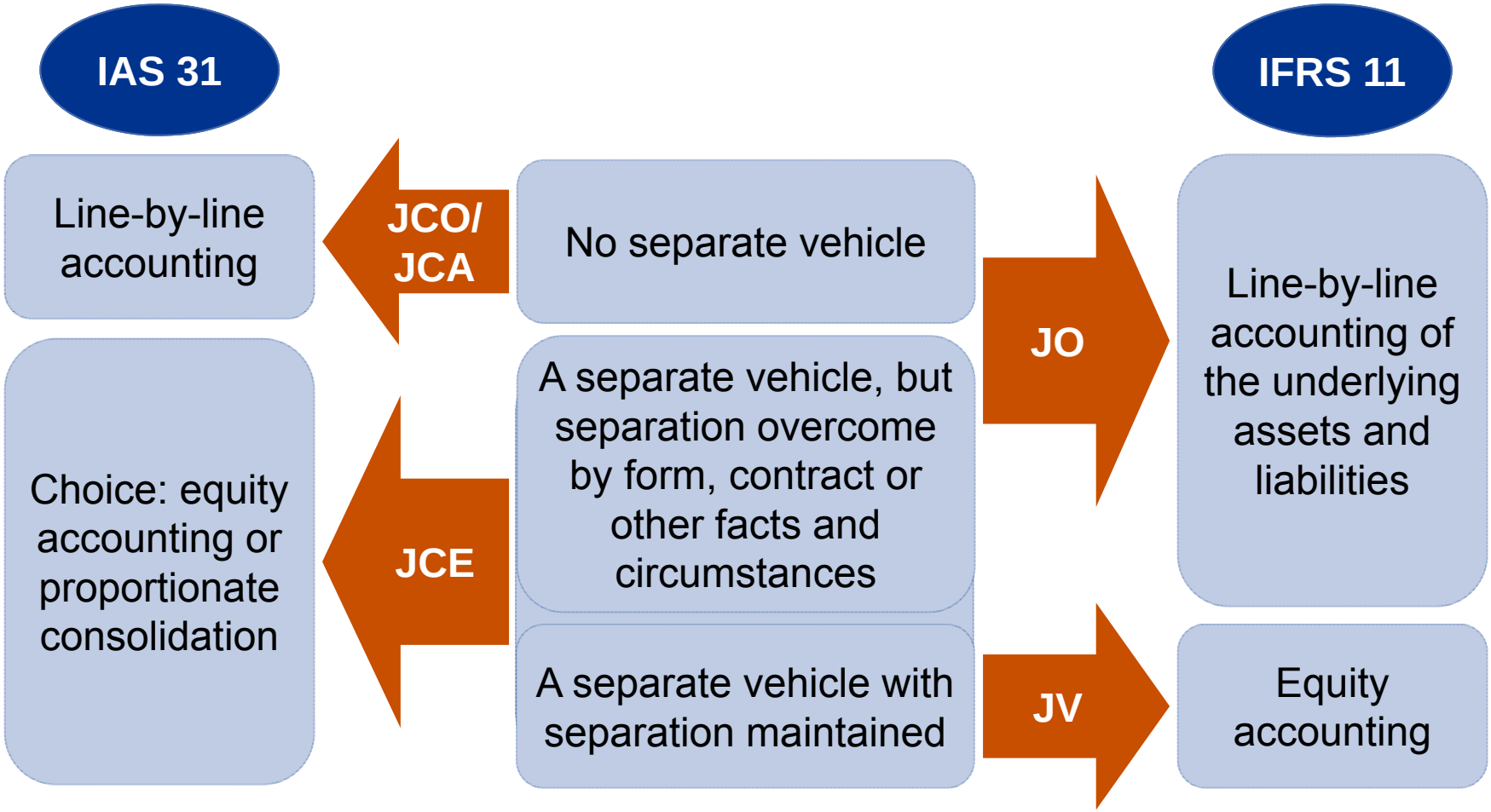
Old vs new requirements



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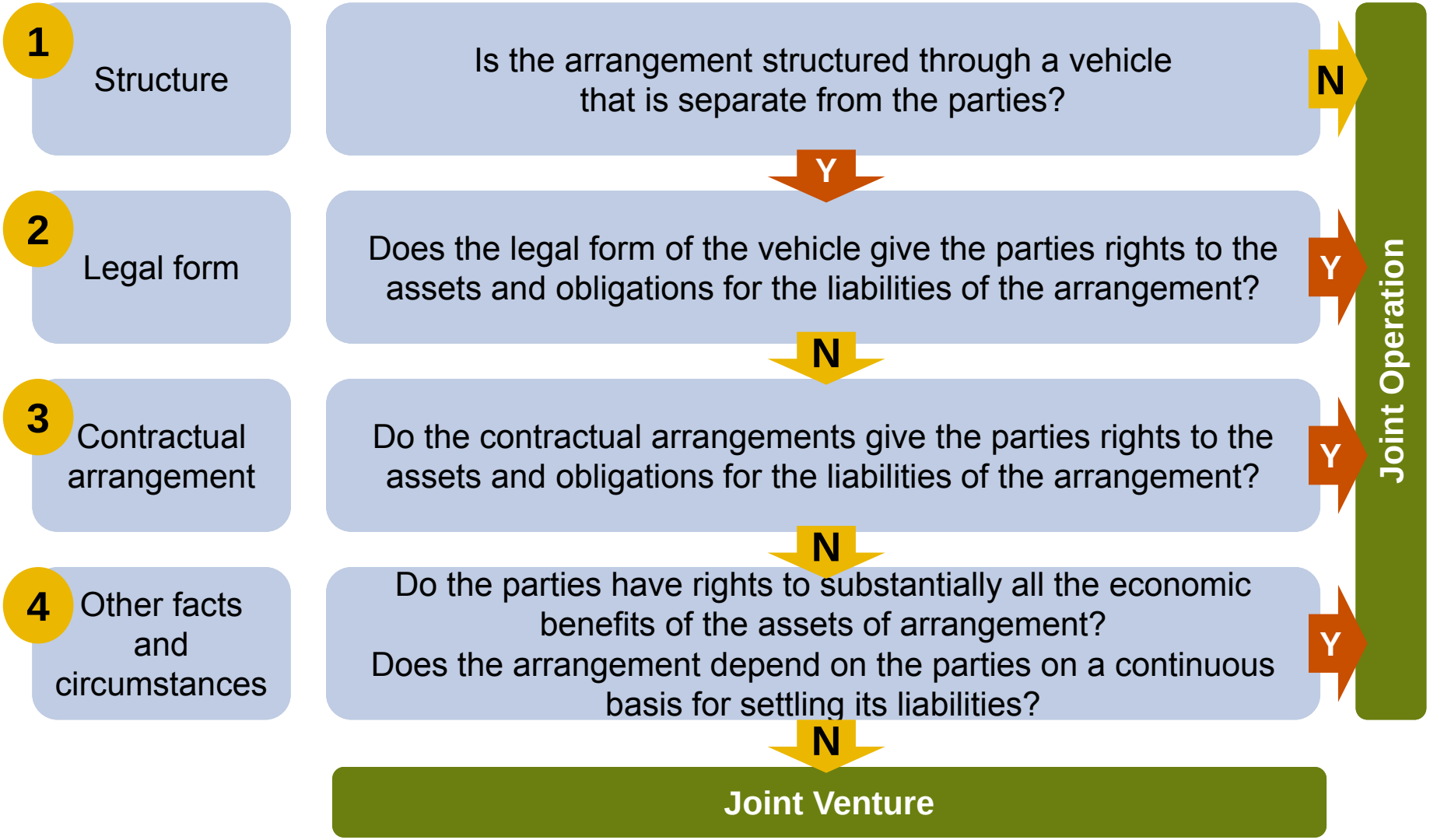
Joint venture vs joint operation



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IFRS 13 Fair Value Measurement

12 May 2011
Standard published

1 January 2013
Date of adoption

30 June 2014
First annual financial statements in which standard would apply

Overview

- IFRS 13 replaces existing guidance in individual IFRSs
- IFRS 13 establishes:
  - a single definition of fair value (FV)
  - a framework for measuring FV
  - disclosure requirements for FV measurements
- IFRS 13 does not require additional FV measurements in addition to those already existing

How to apply the standard

- Understand guidance and principles of FV measurement
- Analyse differences between current application and new FV measurement and disclosure requirements
- Categorise inputs and fair value measurements in the FV hierarchy
- Apply FV measurement and disclosure requirements

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Definition of fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

The Transaction

Assumes the transaction takes place in either:
- Principal market; or
- Most advantageous market (if no principal market exists)

The Price

Price that would be received to sell an asset or paid to transfer a liability…
- Excludes transaction costs
- Consider highest and best use for non- financial assets

Orderly Transaction

- Assumes exposure to market prior to measurement date
- Not a forced transaction

Market Participants

Buyers and sellers in the principal market that are:
- Independent
- Knowledgeable
- Willing and able to transact

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Fair Value

Cayman Developers, a Government entity has recently acquired the Cayman Brewery. The brewery is located in an area that has recently been re-zoned to allow both residential and industrial use. How should Cayman Development assess the fair value of its brewery acquisition?

Solution: Higher of:

- The value of the land as currently developed as a brewery; and
- The value of the land as a vacant site for residential use, taking into account the costs of demolishing the brewery and other costs necessary to convert the land to a vacant site.

Rationale: Highest and Best use. ***IFRS 13.IE7 – IE8***

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Fair Value

Cayman Developers, has also recently acquired a plot of land that is currently used as commercial storage space. As a condition of the acquisition, Cayman Developers is not allowed to change the use of the land for 5 yrs., however, the area in which the property is located has recently been re-zoned and other land nearby has been redeveloped as residential property. Cayman Developers has received legal advice that although the Company is restricted under the terms of the acquisition, the land could be sold to a third party who would not be bound by the restriction. How should the fair value of the land be determined?

Solution: Highest and best use without consideration for the restriction.

Rationale: The legal opinion implies that the restriction is an attribute of the holder (entity-specific) rather than an attribute of the asset and therefore the restriction should not be considered as a market participant would not take this into account. ***IFRS 13.IE28***

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IAS 19 Amendments to Employee Benefits

16 June 2011
Amendment Published

1 January 2012
Date of initial application

1 January 2013

Date of adoption

30 June 2014
First annual financial statements in which amendments would apply

Overview

- No changes to fundamental measurement method under which benefits are attributed to periods of service, though changes of detail
- No changes to the requirement to recognise expense on a straight-line basis when employee service in later years will lead to a materially higher level of benefit than in earlier years

How to apply the amendment

- All remeasurement gains and losses on liability and on plan assets recognised immediately in OCI
- Past service cost recognised immediately in profit or loss
- Revise the calculation for finance costs (net interest cost on the net defined benefit liability (asset) calculated based on the obligation discount rate)
- Evaluate the classification of short-term and other long-term employee benefits based upon amended definitions

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Employee Benefits

Actuarial Gain or Loss Recognition

- Deferral of actuarial gains or losses under the corridor approach is no longer permitted
- Actuarial gains and losses are recognized immediately in OCI as they occur as part of remeasurements.
- Impact on volatility of earnings and not economic exposure

Net Interest

- Defined as net defined benefit liability * liability discount rate
- This changes the amount of total return on plan assets that is recognized in profit or loss.
- The greater the difference between the expected rate of return on your plan assets and your liability discount rate, the greater the impact on P& L.

Defined Benefit Obligations

- Certain employee contributions to be treated as negative benefits, affecting the attribution of the net benefit to years of service.
- Changes in other measurement requirements such as mortality improvements, risk sharing features and contributions from third parties.

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Employee Benefits

Administration Costs

- Cost of managing plan assets to be deducted from the return on plan assets as part of remeasurements in OCI.
- Other administration costs are recognized when the administration service is received.

Unvested Past Service Costs

- On first applying IAS 19R all unrecognized past service costs are recognized retrospectively.
- Regardless of whether benefits are vested or not, past service cost is recognized in profit or loss immediately rather than over the vesting period.

Disclosure

- Additional disclosure requirements including sensitivity analysis for significant actuarial assumptions and the characteristics of the plans.
- Multi-employer and group plans subject to additional disclosure requirements.

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Employee Benefits

Example 1 – Elimination of the corridor method for post-employment benefits

This example illustrates a possible effect on entities currently applying the corridor method. It shows the difference between the calculation of the cumulative actuarial gains and losses at 31 December 2011 for Company W's defined benefit plan (assuming W applies the corridor method and that, for purposes of illustration, there are no unrecognised actuarial gains and losses at 31 December 2010) and the calculation of the remeasurement amount according to the amended standard.[1]

Plan assets	Current IAS 19	Amended IAS 19
Fair value at 31 December 2010 (actual market values at 31 December 2010)	14,000	14,000
Expected return (based on market return at 1 January 2011 and expected long-term rate of return; 7% x 14,000)	***980***	***N/A***
Calculated return on plan assets (based on market value at 1 January 2011 and discount rate used to measure the defined benefit obligation; 6% x 14,000)	***N/A***	***840[2]***
Contributions for the period (actual amounts received by the fund)	1,050	1,050
Employee benefits paid during the period (actual benefits paid by the fund)	(1,500)	(1,500)
Expected fair value of assets at 31 December 2011	14,530	14,390
Actual fair value at 31 December 2011 (actual market values at 31 December 2011)	14,920	14,920
Cumulative (unrecognised) actuarial gain on plan assets at 31 December 2011	***390***	***N/A***
Remeasurements recognised in OCI[3] in respect of plan assets at 31 December 2011	***N/A***	***530***

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Employee Benefits

Defined benefit obligation	Current IAS 19	Amended IAS 19
Obligation at 31 December 2010 (based on actuarial calculation at 31 December 2010)	15,000	15,000
Interest cost (based on interest rates and obligation at 1 January 2011[2]; 6% x 15,000)	900	900
Current service cost (based on actuarial calculation at 1 January 2011)	800	800
Employee benefits paid during the period (actual benefits paid by the fund)	(1,500)	(1,500)
Expected obligation at 31 December 2011	15,200	15,200
Obligation at 31 December 2011 (based on actuarial calculation at 31 December 2011)	17,410	17,410
Cumulative (unrecognised) actuarial loss on plan obligations at 31 December 2011	***2,210***	***N/A***
Remeasurements recognised in OCI in respect of plan obligation at 31 December 2011	***N/A***	***2,210***

1 Tax implications and administration costs are ignored.

2 The interest cost is based on the obligation at the beginning of the year assuming that there are no changes during the year. For purposes of this example the expected return on plan assets is based only on plan assets at the beginning of the period and does not take into account contributions made into and benefits paid out of the plan during the period.

3 Other comprehensive income.

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Employee Benefits

Current IAS 19

The impact on the statement of financial position is as follows:

	2011	2010
Plan assets	14,920	14,000
Defined benefit obligation	(17,410)	(15,000)
Plan deficit	**(2,490)**	**(1,000)**
Cumulative unrecognised actuarial gains (losses) – off balance sheet	(1,820)	-
Balance sheet liability	(670)	(1,000)

Amended IAS 19

The impact on the statement of financial position is as follows:

	2011	2010
Plan assets	14,920	14,000
Defined benefit obligation	(17,410)	(15,000)
Plan deficit	**(2,490)**	**(1,000)**
Cumulative unrecognised actuarial gains (losses) – off balance sheet	-	-
Balance sheet liability	(2,490)	(1,000)

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Employee Benefits

You are the CFO of a Government Entity that has a post retirement defined benefit plan for its employees. Your department has just welcomed a new Chief Accountant who is very well qualified, but has no experience with defined benefit plans. She has been reading the revised IAS 19, but is struggling with understanding what the actuarial assumptions that go into measuring the ultimate cost of settling the defined benefit obligation are and has asked for your help.

How would you respond?

Actuarial assumptions comprise ***IAS 19.76***:

A. Demographic assumptions;

- Mortality
- Rates of employee turnover, disability and early retirement
- Take up of any benefit options under the plan

B. Financial assumptions;

- Future salary
- Benefit levels
- Taxes payable by the plan
- Discount rates

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Employee Benefits

Sir Turtle Airways operates a defined benefit plan that provides an annual pension of 1/60 of final salary for each year of service. The total expected annual salary on retirement of employees covered by the plan is CI$600,000. All the employees are expected to retire in 10 years and have worked for 5 years to date. After retirement, the employees are expected to live for 15 years.
How would you start to measure the defined benefit obligation?

Solution: The defined benefit obligation is the present value of the expected payment of CI$750,000 (5/60* 600,000 * 15).

Rationale: The projected unit credit method is used to determine the present value of the defined benefit obligation. This involves projecting future salaries and benefits to which an employee will be entitled to at the expected date of leaving. ***IAS 19.67***

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Annual Improvements to IFRS 2009 to 2011 cycle

Standard	Improvements
IFRS 1 *First time adoption of IFRS*	• Repeated application of IFRS1. • Borrowing cost exemption .
IAS 1 *Presentation of Financial Statements*	• Comparative information beyond minimum requirements. • Presentation of the opening statement of financial position and related notes.
IAS 16 *Property, Plant and Equipment*	• Classification of servicing equipment.
IAS 32 *Financial Instruments: Presentation*	• Income tax consequences of distributions.
IAS 34 *Interim Financial Reporting*	Segment Assets and Liabilities

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Agenda

Introduction

Session 1:Newly effective Standards

i. Government Loans (Amendments to IFRS 1)

ii. Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

iii. Consolidation Suite of Standards (IFRS 10, IFRS 11 and IFRS 12)

iv. IFRS 13: Fair value measurement

v. IAS 19: Employee Benefits

Session 2: Issued but not effective

i. IFRS 15: Revenue from contracts with customers

ii. IFRS 9: Financial Instruments

iii. Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

iv. IFRIC 21: Levies

v. Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

Session 3: Practical Application Issues

i. Impairment of non financial assets

Conclusion

Session 2 Objectives

1) To provide an overview of the IFRS standards that are issued but not yet effective.
2) To aid in the preparation of the adoption of the standards and assist in meeting the IAS 8.30 disclosure requirements.

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IFRS 15 - Why is This Important?

- Revenue is a key metric for many entities.
- IFRS 15 introduces a new framework for the analysis of revenue transactions.
- The impact will vary between entities.
- Your stakeholders will want to understand the impact on your business.

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Key Facts – Background

Remove inconsistencies and weaknesses in existing requirements.

Provide a more robust framework for addressing revenue issues.

IASB / FASB
Converged Standard

Provide more useful information through improved disclosure requirements.

Simplify preparation of financial statements by reducing the number of requirements by having one revenue framework.

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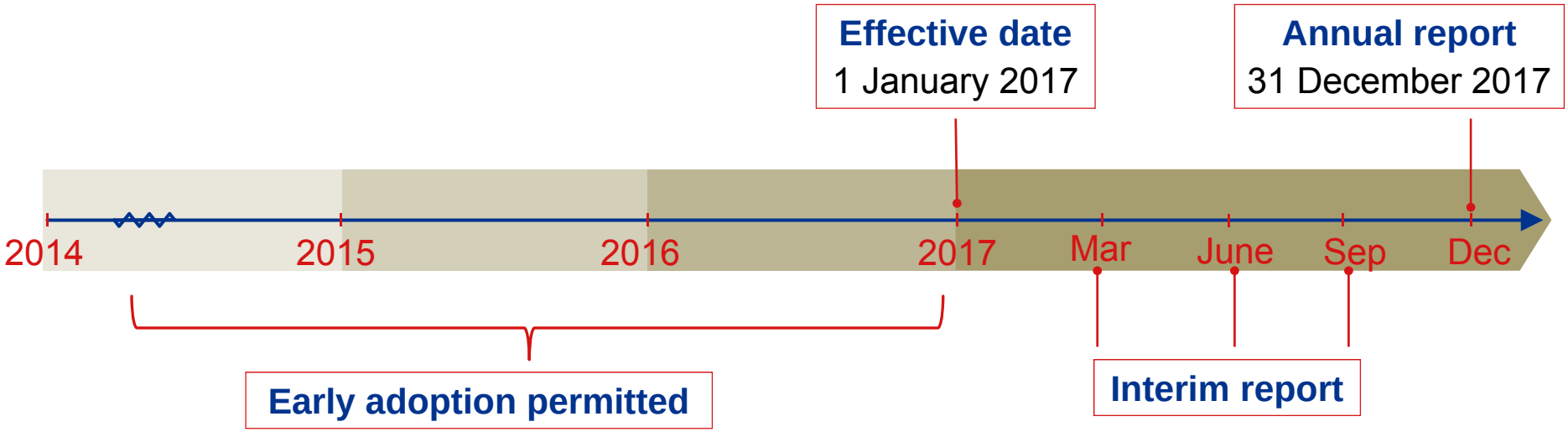
Key Facts – Effective Date



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Key Facts – Transition Approaches

Approach	2015	2016	2017	Date of equity adjustment
Full retrospective – no practical expedients	Legacy GAAP	IFRS 15	IFRS 15	1 January 2016
Partial retrospective – practical expedients	Legacy GAAP	Mixed requirements	IFRS 15	1 January 2016
Cumulative effect	Legacy GAAP	Legacy GAAP	IFRS 15 Legacy GAAP	1 January 2017

Cumulative effect approach: entity also needs to disclose revenue amounts that would have been presented under legacy GAAP.

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The Five Step Model Overview

1. Identify the contract with a customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue

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In-scope contracts

Company X and Company Y are both Government entities. Company X is in the business of buying and selling commercial property and sells a property to Styro Developers, a large property development company in the Cayman Islands. Styro has also entered into a contract to buy Company Y's corporate headquarters in Georgetown after Company Y decided to relocate its corporate headquarters to its manufacturing facility in East End.
Would these contracts fall within the scope of IFRS 15?

Solution: Yes for Company X and No for Company Y.

Rationale: The definition of a customer focuses on an entity's "ordinary activities" ***IFRS 15.BC52 to BC53.***

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Key Changes From Current Guidance

2 Identify the performance obligations

Performance obligation → a good or service is **distinct** if

Benefit on its own + Not separable

Increased separation guidance ✓

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What's the Impact?

Goods and services unbundled (or bundled) more frequently

- Criteria apply to all contracts.
- Indicators – 'not highly dependent or highly interrelated'.

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Performance Obligations

A division of Cayman Printers provides external printer maintenance services. The standard contract is a 2 year service contract for a fixed fee of CI$250 a month. How should these contracts be accounted for under IFRS 15?

Solution: As a single performance obligation over the duration of the contract.

Rationale: The Boards believe that accounting for a series of distinct goods or services as a single performance obligation is they are substantially the same and meet certain criteria simplifies the application of the model and promotes consistency in identifying performance obligations in a repetitive service arrangement. ***IFRS 15.BC113 to BC114***

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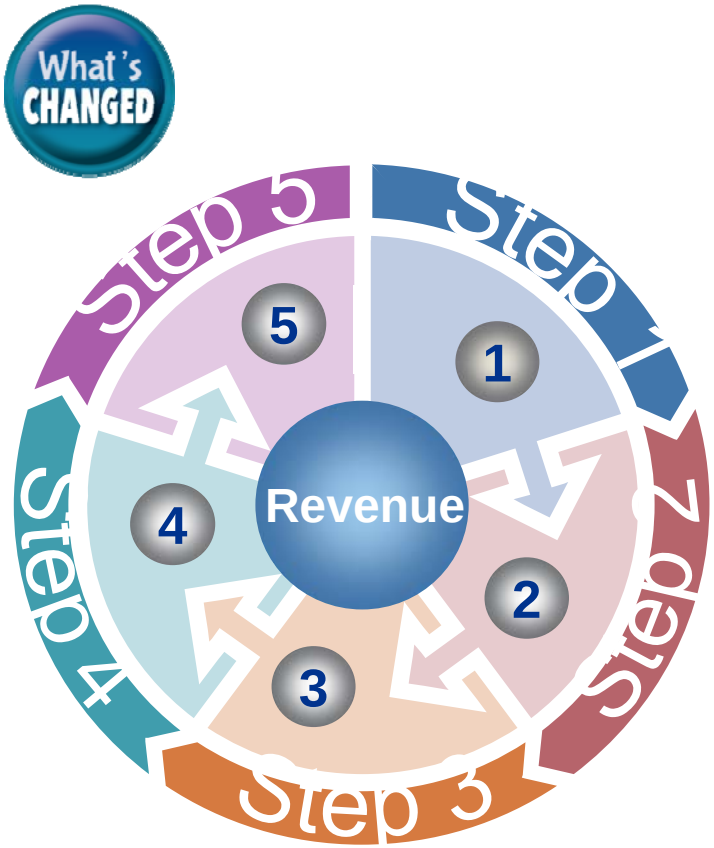
Key Changes From Current Guidance



3 Determine the transaction price

Consideration → amount entity **expects** to be **entitled** to

- Variable consideration
- Significant finance component
- Fair value measurement ✗

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What's the Impact?

Estimates and timing of recognition for variable amounts may change

- Estimation methods prescribed.
- Amount included in the transaction price is limited to the constrained amount.

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Variable considerations

Company X enters into a contract with a customer to build an asset. Depending on when the asset its completed, Company X will receive either CI$110,000 or CI$130,000. There is a 90% probability that the project will complete on time and Company X will receive the higher payment, there is only a 10% probability of the project being delayed how should the variable consideration be measured under IFRS 15, before considering constraints.

Solution: CI$130,000.

Rationale: When estimating the transaction price for a contract with a variable consideration, an entity's initial measurement objective is to determine the method that better predicts the consideration to which the entity will be entitled using either the expected value method (probability weighted) or the most likely amount. With binary outcomes, the use of the expected value method could result in revenue being recognized at an amount that is not a possible outcome under the contract. ***IFRS 15.53-54 and BC200***

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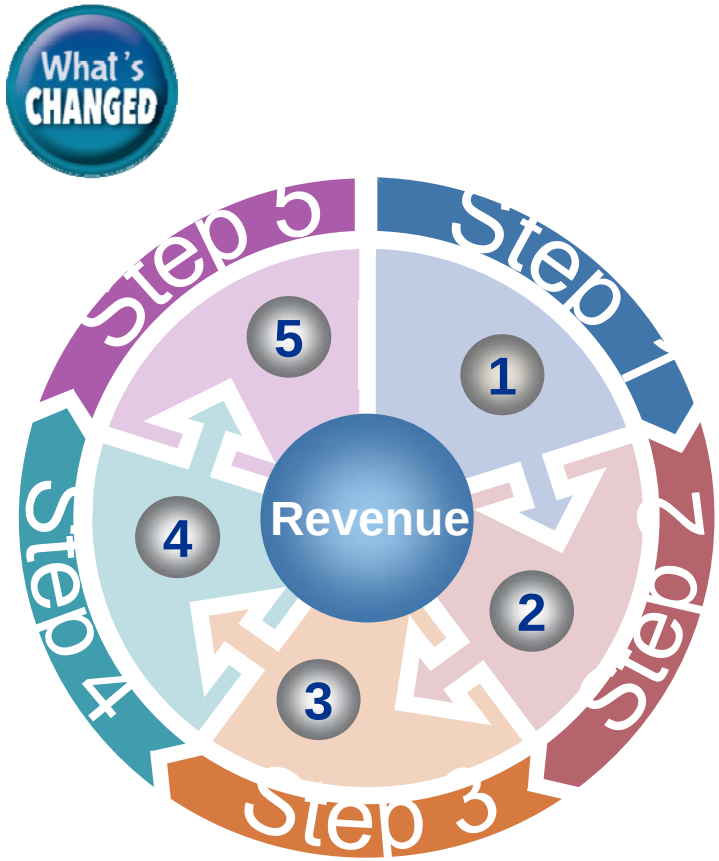
Step 5: Key Changes From Current Guidance



5 Recognise revenue

Control based model

Over time	or	Point in time
If criteria met		If criteria not met

Risk & rewards based model ✗

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What's the Impact?

Revenue may be recognised earlier or later than at present

- Over time criteria may capture more entities.
- New guidance to assess whether licence revenue is recognised over time.

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Principal vs Agent

Cayman Internet Retailers ("CIR") operates a website that enables customers to buy goods from a range of suppliers that deliver the goods directly to the customers. The website facilitates payment between the supplier and the customer at prices set by the supplier and Cayman Internet Retailers is entitled to a commission calculated as 10% of the sales price. Customers pay in advance and all orders are non-refundable. What is Cayman Internet Retailer's performance obligation and when should the revenue earned be recognized?

Solution: CIR's performance obligation is to arrange for the supplier to provide the goods. When goods are purchased by the customer CIR should recognize the revenue at the amount of the commission to which it is entitled.

Rationale: When other parties are involved in providing goods or services to an entity's customer, the entity determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself, or to arrange for another party to provide them. If the entity is a principal revenue is recognised on a gross basis. If entity is an agent revenue is recognised on a net basis. ***IFRS 15.B34 – B36***

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Business Impacts

Accounting, Tax, and Reporting

- Accounting policies
- Historical results and transition
- Reporting differences
- Disclosure of expected impact
- Tax reporting
- Tax planning

Systems and Processes

- ERP system
- General ledger, subledgers and reporting packages
  - Transition processes
    - New processes
    - Changes to internal controls

Business

- Contractual terms
- Internal reporting and business metrics
- Communication with stakeholders
- Covenant compliance
- Opportunity to rethink business practice
- Coordination with other strategic initiatives

People and Change

- Project management
- Compensation arrangements
- Training (accounting, sales, etc.)
- Multi-national locations

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Next Steps – Disclosure Prior to Effective Date

- IAS 8.30 disclosure — known/reasonably estimable of possible impact of IFRS issued but not yet effective.

Year-end considerations

- Pre-adoption disclosures progressing in level of detail as your application date approaches?
- Pre-adoption disclosures meeting stakeholder expectations?

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Next Steps – Communications with Audit Committees and Stakeholders

Initial Discussion Points

- Highlight most relevant areas of IFRS 15 and differences from current practice.
- Discuss initial thoughts on the expected impact of IFRS 15.
- Highlight non-accounting areas potentially affected.
- Opportunity to reconsider past accounting policies.
- Planned communications with external stakeholders.

Next steps

Start impact assessment

Early adoption?

Transition approach?

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Key Points to Remember!

- New revenue standard will impact all entities, in different ways.
- Process of assessing impact should start now.

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IFRS 9 (2014): Why is This Important?

- IFRS 9 will impact all entities, but especially banks, insurers and other financial companies.
- The impact will vary between industries and entities.
- Your stakeholders will want to talk about the impact on your business.

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Overview of IFRS 9

Topic	IFRS 9	Impact	
		Financial sector	Other corporates
Recognition and derecognition	IAS 39 model	Low impact	Low impact
Classification and measurement	New model	High impact	Low impact, Medium impact
Expected credit losses (Impairment)	New model	High impact	Low impact, Medium impact
Hedge accounting	Amended model	Medium impact	Low impact, Medium impact

Legend:
- Low impact
- Medium impact
- High impact

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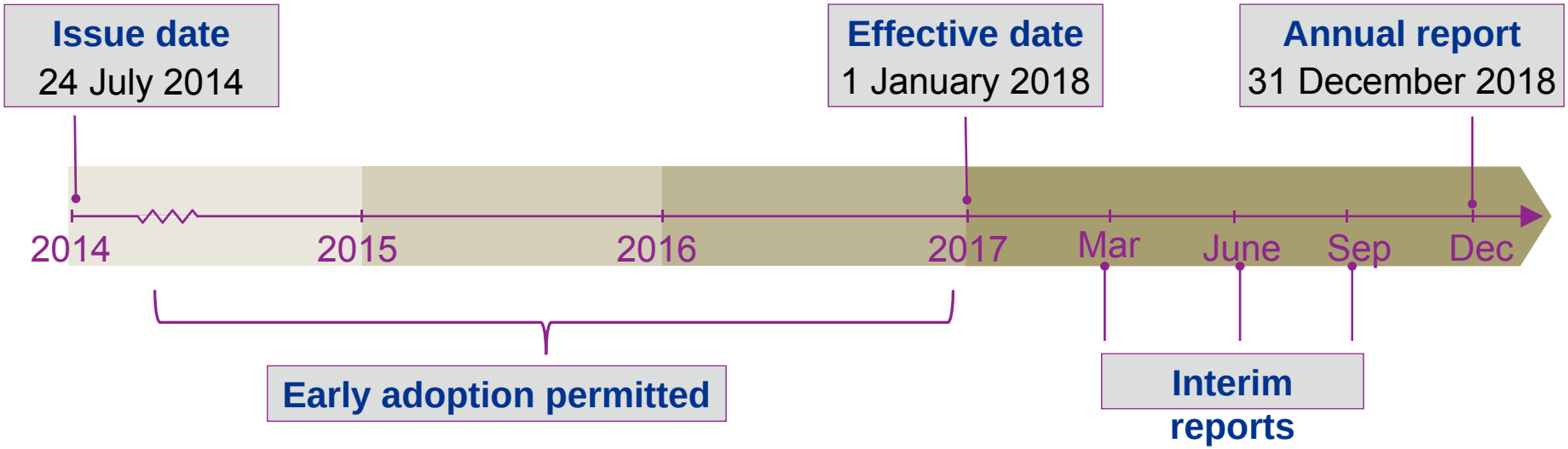
Effective Date



- Entities that initially apply a previous version of IFRS 9 by 31 January 2015 can continue to apply that version until 1 January 2018.
- Permitted to early adopt 'own credit' requirements in isolation.

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Complex Transition Provisions

- Classification and measurement and expected credit losses – retrospective application with some exemptions.
- Hedge accounting – generally prospective application.
- Restatement of prior periods not required (permitted only if information is available without the use of hindsight), except for some aspects of hedge accounting.
- Entities can choose to adopt IFRS 9 but continue hedge accounting under IAS 39 until completion of the macro hedging project.

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Main Changes From Current IAS 39 Guidance

Financial asset measurement categories

- Measurement bases: Amortised Cost, FVOCI* and FVTPL* remain.
- However, criteria for classifying assets as Amortised Cost, FVOCI and FVTPL have been significantly changed.
- Derivatives embedded in a financial asset are not separated – the whole asset is assessed for classification.

Financial sector	●
Other Corporates	● ●

* FVOCI – fair value through other comprehensive income / FVTPL – fair value through profit or loss

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Main Changes From Current IAS 39 Guidance

Financial liability measurement categories

- IFRS 9 retains almost all of the existing requirements from IAS 39.
- Change: gain or loss on a financial liability designated at FVTPL attributable to changes in own credit risk generally presented in OCI with remaining change in fair value presented in profit or loss.

Financial sector	
Other Corporates	

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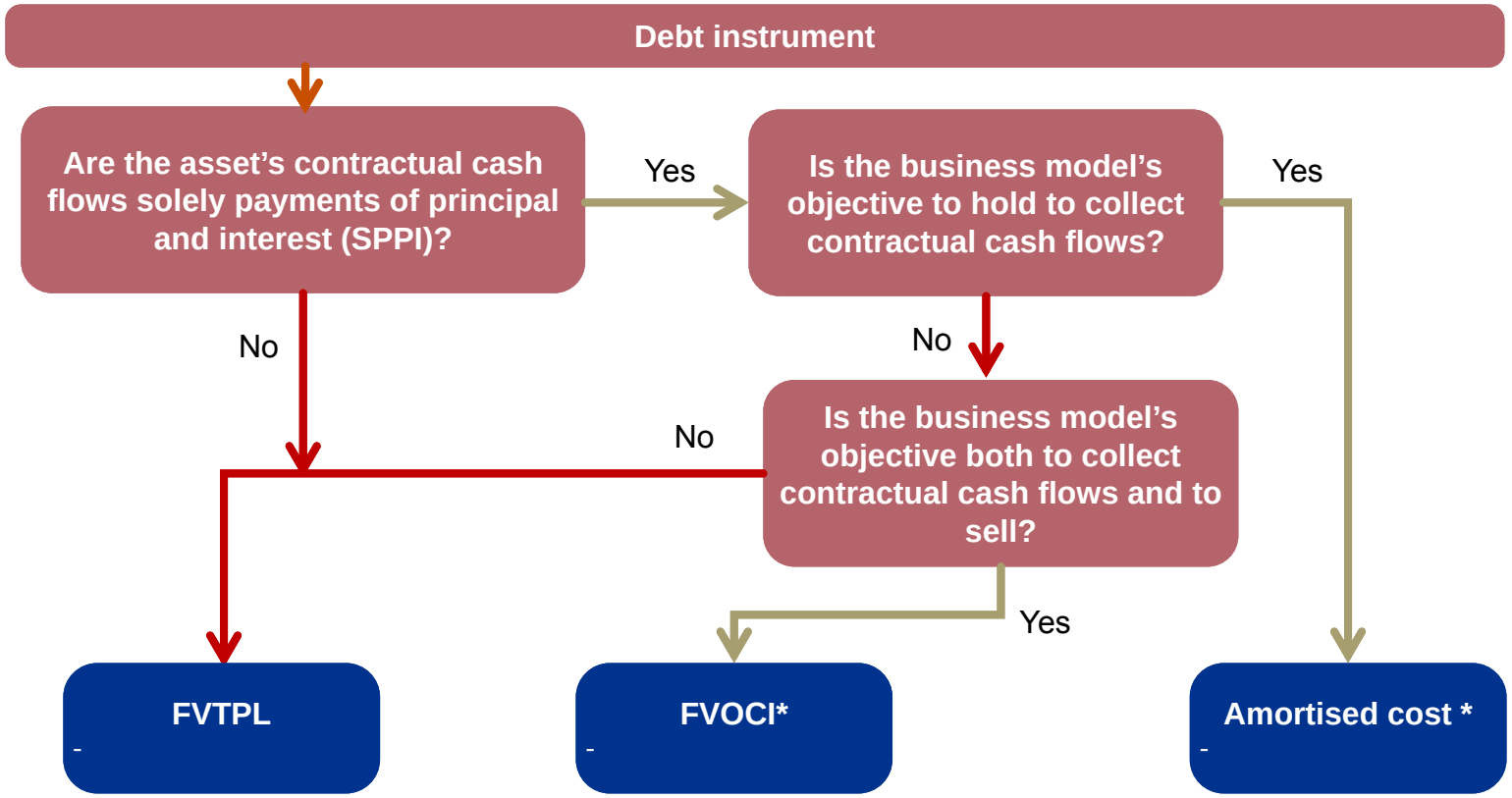
Principles of Financial Asset Classification – Debt Instruments



Financial sector	
Other Corporates	

* Subject to FVTPL designation option - if it reduces accounting mismatch

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The Solely P&I (SPPI) Criterion

Do the cash flows consist only of principal and interest?

- **Consistent with a basic lending arrangement.**

	Definition
Principal	Fair value of asset on initial recognition.
Interest	Consideration for time value of money, credit risk, other basic lending risks (such as liquidity risk); other associated costs (such as administrative costs); and a profit margin.

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Business Model Assessment

Business model
Hold to collect contractual cash flows
Hold both to collect contractual cash flows and for sale
Other business models

- Assessment considerations: how performance is evaluated, how risks are managed, how managers are compensated, actual and expected levels of sales, etc.
- Assessed at a level at which assets are managed, e.g. portfolios.

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Business Model Assessment Illustration

- Company Z generates trade receivables that are due in 30 days after the issue of an invoice.
- Z manages cash collections, deals with customer queries and sends out reminders when amounts become overdue.
- The management focuses on monitoring the overdue status and collection teams are evaluated on the basis of the length of the cash collection period.
- When a receivable is overdue by 150 days and no payment plan has been agreed with a customer, Z's policy is to sell the receivable, at a significant discount, to a debt collection company and Z has no further involvement with that receivable. This happens rarely.

Q: What is the business model in which trade receivables are held?

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Business Model Assessment: Rationale

Hold to collect contractual cash flows.

- **Management of risk**

Focus on collection of contractual cash flows and management of overdue status.

The collection team evaluated with reference to the collection period.

- **Sales of assets**

Infrequent sales in response to deterioration in credit risk are not inconsistent with the Hold to collect model.

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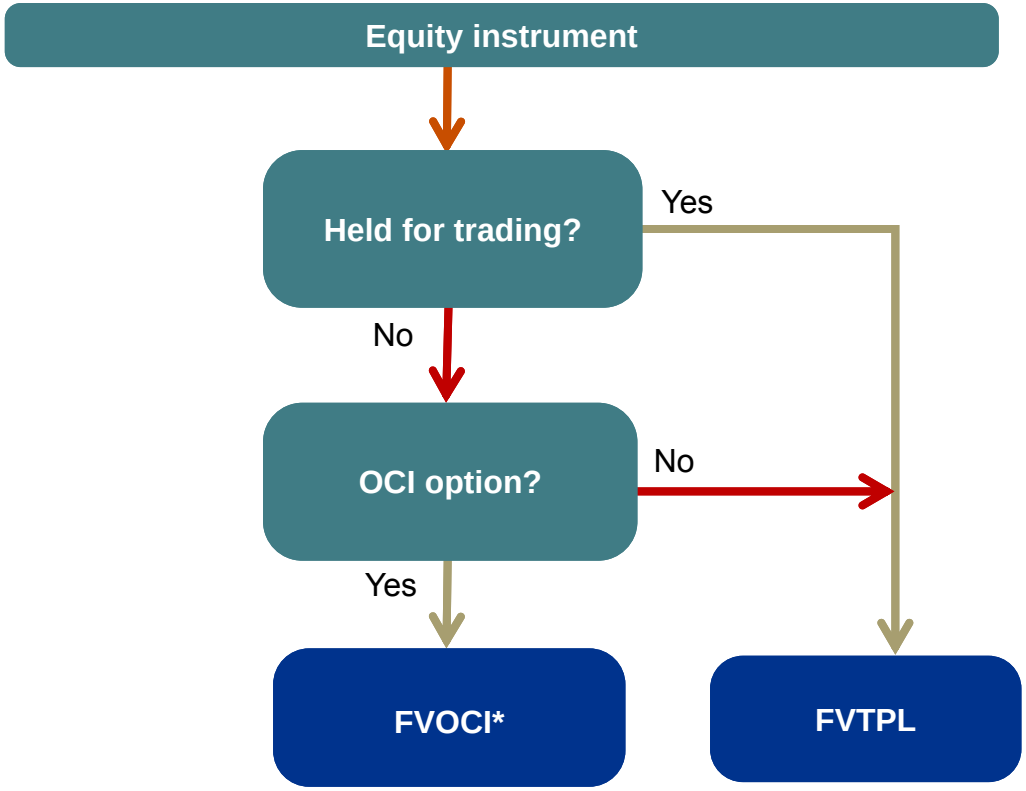
Principles of Financial Asset Classification – Equity Instruments



Financial sector	
Other Corporates	

* amounts recognised in OCI are not reclassified to profit or loss on derecognition and no impairment loss recognised in profit or loss.

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Main Changes From Current IAS 39 Guidance

Expected credit losses

- IFRS 9 changes accounting for impairment - impairment losses recognised for all amortised cost and FVOCI assets, not only those where credit loss has been incurred.

  Journal Entries for amortised cost assets

  Dr Impairment Loss (profit or loss)
  Cr Loss Allowance (statement of financial position)

- The model also applies to certain financial guarantees and loan commitments, but not to equity investments or instruments measured at FVTPL.

Larger provisions with more volatility.

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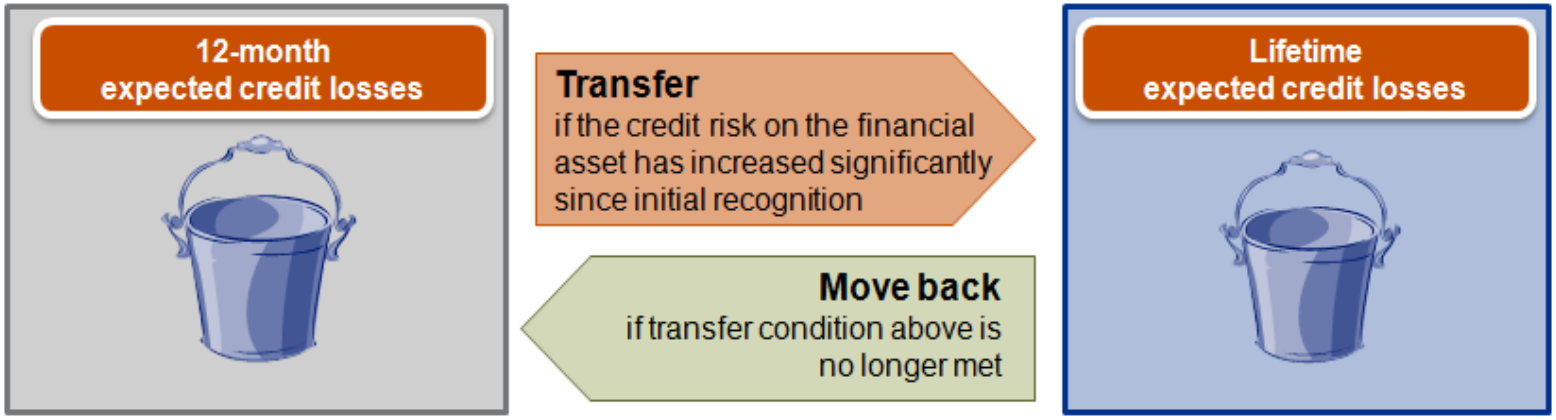
Dual Measurement Approach



Under the general principle, one of two measurement bases will apply:

- 12-month expected credit losses; or
- lifetime expected credit losses.

The measurement basis would depend on whether there has been a significant increase in credit risk since initial recognition.

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Trade and Lease Receivables and Contract Assets

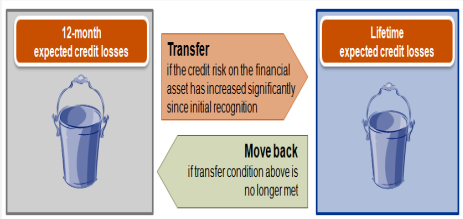
Lease receivables

Trade receivables and contract assets with a significant financing component

Trade receivables and contract assets without a significant financing component

Policy election to apply

General approach



Simplified approach

Loss allowance always equal to lifetime expected credit losses.

Practical expedient to calculate expected credit losses – provision matrix.

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Loss Allowance Recognition: Illustration

- On 31 December 20X1 Bank B grants a loan to a borrower with low credit standing, but still at an acceptable level for B.
- The price of the loan does not reflect incurred credit losses.

Q: What loss allowance should B recognise in the statement of financial position at 31 December 20X1?

A. None.
B. 12-month expected credit losses.
C. Lifetime expected credit losses.

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Loss Allowance Recognition: Rationale

B. 12-month expected credit losses.

- Under the general model of IFRS 9, all assets need to have a loss allowance.
- Allowance covers either 12-month or lifetime expected credit losses depending on whether the asset's credit risk has increased significantly.
- Since the loan has just been granted and there has not been a significant increase in credit risk, an allowance equal to 12-month expected credit losses is appropriate.

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Assessment of Significant Increase in Credit Risk: Illustration

- Bank B uses an internal credit grading system of 1 to 10.
- A drop of 2 grades represents a significant increase in credit risk.
- Bank B has two loans:
  - Loan 1: Graded 2 at initial recognition, Graded 4 at the reporting date.
  - Loan 2: Graded 3 at initial recognition, Graded 4 at the reporting date.
- B does not consider grade 4 to be a low credit risk.

Q: At the reporting date, would each loan attract a 12-month or lifetime expected credit loss allowance?

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Assessment of Significant Increase in Credit Risk: Rationale

Loan 1: Loss allowance = lifetime expected credit losses

Loan 2: Loss allowance = 12-month expected credit losses

**The credit loss model in IFRS 9 is a relative rather than an absolute model which means that it focuses on the relative size of increase in credit risk.

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Many Existing Concepts Retained

Three hedge accounting models:

- Fair value hedge.

- Cash flow Hedge.

- Hedge of a net investment.

Hedge documentation requirements.

Measurement of hedged items and hedging instruments.

Measurement of ineffectiveness.

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More Principles-based

- **80%-125% effectiveness bright-line removed.**
- **No retrospective testing of effectiveness. In some cases only qualitative prospective effectiveness test will be required.**
- **More items are allowed as hedged items, for example:**

  risk components of non financial items; and

  net positions.
- **More items allowed as hedging instruments, for example:**

  Non-derivative financial instruments measured at FVTPL.

In many instances hedge accounting will be less burdensome and there will be more scope to reflect internal risk management strategies

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Some New Complexities

- Explicit requirements for hedge accounting to align with an entity's risk management objective.
- Hedge accounting cannot be voluntarily discontinued.
- Introduction of a concept of "rebalancing".
- Potentially complex accounting for portions of derivatives excluded from hedging relationships (e.g. time value of an option).

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Disclosures

- IFRS 9 introduces extensive new disclosure requirements.
- Sourcing the additional information required could be a complex and time-consuming process that will have an impact on resources and systems.
- Designing disclosures and sourcing data should be a key part of any project for implementing IFRS 9.

Financial sector	
Other Corporates	

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Next Steps – Communications with Audit Committees and Stakeholders

Initial Discussion Points

Highlight most relevant areas of IFRS 9 and differences from current practice.

Discuss initial thoughts on the expected impact of IFRS 9.

Highlight non-accounting areas potentially affected.

Planned communications with external stakeholders.

Next steps

Start impact assessment

Early adoption?

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Key Points to Remember!

IFRS 9 will impact entities in different ways:

Banks, insurers and other financial sector entities are likely to be significantly impacted.

Impact on other corporates may be less.

Process of assessing impact should start now.

This overview covers IFRS 9 at a very high level – in reality there are many detailed and complex requirements.

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IFRIC 21 Levies

20 May 2013
Interpretation published

1 January 2014

Effective date (early adoption permitted)

30 June 2015
First annual financial statements in which proposals would mandatorily apply.

Overview

- A levy is an outflow from an entity imposed by a government in accordance with legislation
- Recognised when and only when the triggering event specified in the legislation occurs
- The interpretation only applies to the liability side of the transaction

How to apply the interpretation

- Recognise a liability when triggering event occurs:
  - if triggering event occurs at a point in time, then liability is recognised in full at that time
  - if triggering event occurs over a period of time, then liability is recognised progressively over that period
  - If triggering event occurs when a threshold is met, then liability is only recognised once that threshold is met

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IFRIC 21 Levies

Key impacts

- Timing of liability recognition will depend on precise wording of relevant legislation
- The same recognition principles apply in interim and annual financial statements
- If triggering event is at a point in time once a year, the expense cannot be spread across intervening interim periods

Expected impact

Reporting	●
Business	●
Systems / processes	●
People and change	●

Immediate next steps

- Identify transactions within scope of interpretation
- Identify differences in timing of recognition between current practice and interpretation
- Calculate financial statement impact

Bottom line

- Greater comparability between entities that operate in the same market and jurisdiction
- Impact on annual and / or interim financial statements may be significant
- Financial ratios may be affected
- Review levy arrangements now

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Business combination accounting for interests in a joint operation

6 May 2014:
Final amendments published

1 January 2016:
Effective date (early application permitted)

30 June 2017:
First annual financial statements in which amendments are effective

Overview

- Apply business combination accounting to acquisition of interest in a joint operation that is a business
- Amendments will resolve long-standing question
- Judgement still required over whether the joint operation is a business

Answering a long-standing question

- Differences in current approaches followed relate to:
  - Fair value measurements of net identifiable assets
  - Recognition of goodwill
  - Deferred tax initial recognition exemption
  - Acquisition-related costs

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Restricting the use of revenue based amortization

12 May 2014:
Final amendments published

1 January 2016:
Effective date (early application permitted)

30 June 2017:
First annual financial statements in which amendments are effective

Overview

- Amendments introduce severe restrictions on the used of revenue- based amortization methods.
- Revenue based amortization of intangible only permissible when revenue an the consumption of economic benefits are "highly correlated"
- Explicit ban on the use of revenue based depreciation methods for property, plant and equipment.

Impact assessment

- Rebuttable presumption that the use of revenue based amortization methods is inappropriate.
- Highly correlated is a new term that is not used in other IFRSs.
- It is not likely that the ban will have a significant impact on current practice for PPE.

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IFRS Work Plan

Work plan—as at 28 October 2014

Major Projects | Implementation | Conceptual Framework | Research Projects | Completed IFRSs | Agenda consultation

To access the project pages of these active projects, click on the respective project name in the table.

Next major project milestone

Upcoming Standards	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Insurance Contracts	Redeli-berations			
Leases				Target IFRS (H2 2015)
Comprehensive review of the *IFRS for SMEs*	Redeli-berations			

Upcoming Exposure Drafts	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Conceptual Framework		Target ED		

Published Discussion Papers	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging [Comment period ended 17 October 2014]	Public consultation			
Rate-regulated Activities [Comment period ends 15 January 2015]	Public consultation			

Upcoming Discussion Papers	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Disclosure Initiative				
Principles of disclosure			Target DP	

The Disclosure Initiative is a portfolio of Implementation and Research projects.

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IFRS Work Plan

Work plan—as at 28 October 2014

Major Projects | Implementation | Conceptual Framework | Research Projects | Completed IFRSs | Agenda consultation

Next major project milestone

Narrow-scope amendments	2014 Q4	2015 Q1	2015 Q2	2015 Q3	
Annual Improvements 2014–2016			Target ED		
Clarifications of Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)	Target ED				
Classification of liabilities (Proposed amendment to IAS 1)		Target ED			
Disclosure Initiative					
Amendments to IAS 1 (Disclosure Initiative)	Target IFRS				
Reconciliation of liabilities from financing activities	Target ED				
Elimination of gains or losses arising from transactions between an entity and its associate or joint venture (Proposed amendments to IAS 28)	Target ED				
Fair Value Measurement: Unit of Account [Comment period ends 16 January 2015]	Public consultation				
Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)	Target IFRS				
Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12) [Comment period ends 18 December 2014]		Redeliberations			

Next major project milestone

Post-implementation Reviews	2014 Q4	2015 Q1	2015 Q2	2015 Q3	
IFRS 3 *Business Combinations*		Target Feedback Statement			

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Agenda

Introduction

Session 1:Newly effective Standards

i. Government Loans (Amendments to IFRS 1)

ii. Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

iii. Consolidation Suite of Standards (IFRS 10, IFRS 11 and IFRS 12)

iv. IFRS 13: Fair value measurement

v. IAS 19: Employee Benefits

Session 2: Issued but not effective

i. IFRS 15: Revenue from contracts with customers

ii. IFRS 9: Financial Instruments

iii. Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

iv. IFRIC 21: Levies

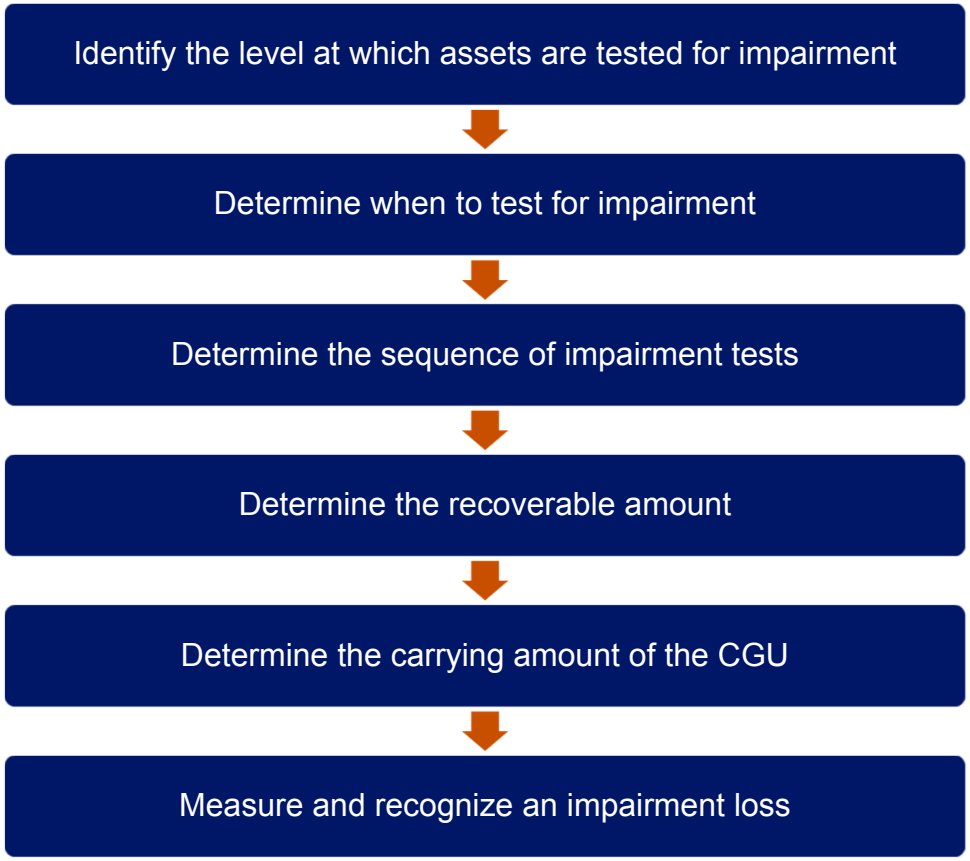
v. Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

Session 3: Practical Application Issues

i. Impairment of non financial assets

Conclusion

Impairment of non financial assets



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Impairment of non financial assets

Cayman Electric is the sole electricity distributor in the Cayman Islands and has one plant which is considered to be its only CGU and Cayman Electric conduct annual impairment testing because the CGU includes goodwill. On 30 June 2014 the Cayman Islands Government was considering deregulating the electricity generation sector and opening it up to more private players which would have an adverse impact on Cayman Electric's future sales and overall profitability, however, most market commentators believed that the deregulation would not occur.
How would you consider the impairment analysis for Cayman Electric?

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v. Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

Session 3: Practical Application Issues

i. Impairment Analysis

ii. Working with External Actuaries to meet the IAS 19 requirements

Conclusion

Objectives for the Day

1) To discuss newly effective IFRS standards in 2014.
2) To discuss standards that are issued but not yet effective and assess their impact on financial reporting in future periods.
3) Discuss practical issues with respect to the application of IFRS.

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Key points to remember!

- Accounting standards continue to evolve, it is important for anyone in the finance function to try and stay up to date with the changes in the standards.
- IAS 8.30 requires an assessment of the impact of standards that are issued but not effective
- Start thinking about the impact that the new standards will have, not only from an accounting perspective but also from a business process and systems perspective

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Questions and feedback

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Thank You

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