Final Paper 6E: Global Financial Reporting Standards

IFRS Amendments applicable for November, 2023 examination
(not given in October, 2021 edition of the study material)

Following amendments are applicable for GFRS paper:

- Amendment to IAS 16 'Property, Plant and Equipment' on accounting of proceeds from sale of items produced during testing.
- Amendment to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on determination of cost of fulfilling a contract for measurement of provision for an onerous contract.
- Amendments to IFRS 3 'Business Combinations' with reference to Conceptual Framework for Financial Reporting and insertion of certain paragraphs under exceptions to recognition principle on liabilities, contingent liabilities and contingent assets
- Annual improvements to IFRS in IFRS 1 'First Time Adoption of International Financial Reporting Standards', IFRS 9 'Financial Instruments' and IAS 41 'Agriculture'.

The key amendments applicable for November, 2023 examination are:

IFRS	Significant amendments applicable for November, 2023 examination
IAS 1, 'Presentation of Financial Statements'	Para 10 and para 114 of IAS 1 have been modified by replacing 'significant accounting policies' with 'material accounting policies'. Further, disclosure of accounting policies have been modified and have discussed which accounting policy information should be considered as material. According to the amendment 'Accounting policy information' is material when it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. An entity is required to disclose, along with material accounting policy information or other notes, the judgements that management has made in the process of applying the entity's accounting policies which have the most significant effect on the amounts recognised in the financial statements.
IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'	Definition of 'Change in Accounting Estimate' given in para 5 has been replaced with the definition of 'Accounting Estimates'. The revised definition states as follows: *"Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty."* As per the amendment, the company develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Earlier examples have been replaced by the following examples of accounting estimates:

IFRS	Significant amendments applicable for November, 2023 examination
	(a) a loss allowance for expected credit losses, applying IFRS 9; (b) the net realisable value of an item of inventory, applying IAS 2; (c) the fair value of an asset or liability, applying IFRS 13; (d) the depreciation expense for an item of property, plant and equipment, applying IAS 16; and (e) a provision for warranty obligations, applying IAS 37. To develop an accounting estimate, an entity has to use measurement techniques and inputs. Measurement techniques include estimation techniques and valuation techniques.
IAS 12, 'Income Taxes'	As per the amendment, paragraphs 15 and 24 have been modified by adding an exception to the recognition of deferred tax liability or deferred tax assets on taxable temporary difference or deductible temporary difference respectively, arising on account of the initial recognition of an asset or liability in a transaction which at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
IFRS 1, 'First Time Adoption of International Financial Reporting Standards'	Amendment has narrowed the scope of Initial Recognition Exemption with regard to leases and decommissioning obligations. According to it, the entity will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on transactions such as initial recognition of a lease and a decommissioning provision. As per the amendment, despite Paragraphs 15 and 24 of IAS 12 exempt an entity from recognising a deferred tax asset or liability in particular circumstances, at the date of transition to IFRS, a first-time adopter shall recognise a deferred tax asset — to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised — and a deferred tax liability for all deductible and taxable temporary differences associated with: (a) right-of-use assets and lease liabilities; and (b) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.
IAS 16, 'Property, Plant and Equipment'	Para 17(e) of IAS 16 has been amended by adding a clarification that the excess of net proceeds from sale of items produced during testing will be credited to Profit or loss.
IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'	Paragraph 68A has been inserted which clarifies which cost needs to be considered in the costs to fulfil a contract while determining whether the contract is onerous. As per the amendment, both the incremental costs to fulfil a contract and allocation of directly attributable costs will form part of the cost used for determination of onerous contract. Para 69 has been amended by replacing **<u>'assets dedicated to the contract'</u>** to

IFRS	Significant amendments applicable for November, 2023 examination
	<u>'assets used in fulfilling the contract'.</u> This amendment requires to take into consideration the impairment loss on all the assets whose cost will be considered in assessing the contract is onerous.
IFRS 3 'Business Combinations'	In March, 2018, IASB revised Conceptual Framework for Financial Reporting. The amendments made in IFRS 3 is due to change in reference to Conceptual Framework without change in the accounting requirements for business combinations. Due to revision in the Conceptual Framework, there were certain accounting implications to contingent liabilities and levies within the scope of IAS 37 and IFRIC 21 'Levies'. As per it, the assets and liabilities in a business combination are recognised if they meet the definition of an asset or liability as per the Conceptual Framework. The timing of recognition of a levy may sometimes be different due to specific guidance given in IFRIC 21. Therefore, while recognizing levies at the acquisition date, an acquirer might recognise at the acquisition date a liability to pay a levy that it would not recognise subsequently when applying Appendix C 'Levies'. This difference would arise because an entity might recognise a liability earlier by applying the Conceptual Framework. This liability would be derecognized immediately afterwards when principles of IFRIC 21 are applied. Therefore, to resolve this implication, IFRS 3 has been amended with regards to recognition exception for contingent liabilities and levies by inserting para 21A to 21C. An exception has been added to the requirements of para 11 of IFRS 3 for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if incurred separately, rather than assumed in a business combination. Further, IFRS 3 prohibited the recognition of contingent assets even prior to the amendments. However, prohibition was not stated explicitly in IFRS 3 itself. Therefore, para 23A has been inserted in IFRS 3 to explicitly prohibit recognition of contingent asset.
IFRS 1 'First Time Adoption of International Financial Reporting Standards'	Para D13 of IFRS 1 provides an exemption to a first-time adopter of IFRS with regard to cumulative translation differences on the date of transition to IFRS. According to it, first time adopter of IFRS are permitted to deem all cumulative translation differences for all foreign operations to be zero on the date of transition to IFRS. Para D13A has been inserted in IFRS 1 which removes the conflict between the requirements of paragraph D16(a) of IFRS 1 which provides exemption where a subsidiary adopts IFRS later than its parents and the exemptions on cumulative translation differences at the carrying amount included in the parent's consolidated financial statements. Similar exemption is available to joint venture and an associate that uses the exemption in para D16(a) of IFRS 1. Para D16(a) of IFRS 1 provides that a subsidiary can measure its assets and liabilities at the carrying amounts in

IFRS	Significant amendments applicable for November, 2023 examination
	parent's consolidated financial statements.
IFRS 9 'Financial Instruments'	As per IFRS 9, a financial liability is derecognised when it is extinguished, which includes exchange between an existing borrower and lender due to different or substantial modification in terms of the contract. Further, IFRS 9 clarified that terms are considered to have been substantially modified when the net present value of the cash flows under the new terms **(including any fees paid net of any fees received)** and discounted using the original EIR differs by atleast 10% from the present value of the remaining cash flows under the original terms. Earlier what is to be included in the **<u>fees paid and fees received</u>** was not mentioned in the standard. Now the amendment has been made by substituting para B3.3.6 and inserting para B3.3.6A in IFRS 9 which clarify that the **<u>fees paid</u>** (for the above purpose) includes amount paid by the borrower to or on behalf of the lender and **<u>fees received</u>** includes fees amounts paid by the lender to or on behalf of the borrower.
IAS 41 'Agriculture'	Earlier para 22 of IAS 41 prescribed certain cash flows that would not be considered for the purpose of assessing the fair values. Out of those cash flows, the amendment deleted the cash flows for taxation from the exclusion list for measurement of fair value. This implies that tax cash flows must be included in the fair value measurement of biological assets as per IAS 41.