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EDITORIAL

Two of the most significant outstanding accounting issues have now been tackled jointly by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). Although both sets of proposals are controversial, the exposure drafts covering revenue recognition and leases represent major progress towards convergence. These exposure drafts also demonstrate clearly that, regardless of any decision by the US to adopt International Financial Reporting Standards (IFRS), a single set of global standards is fast becoming a reality.

The difficulty with both these subjects is that, whilst there is almost universal agreement that the current standards are ineffective, there is little agreement on the solution. In addition, so far as leasing is concerned, there are active lobby groups fighting to maintain accounting treatments which they believe make their products attractive.

Paul Ginman

Chief operating officer, Baker Tilly International

EXPOSURE DRAFTS

Exposure Draft – Revenue from Contracts with Customers

The IASB and the US FASB have released a joint exposure draft of a new revenue recognition standard which proposes a contract led approach to revenue recognition. The proposed IFRS is intended to replace IAS 18 – Revenue Recognition and IAS 11 – Construction Contracts. The new US standard will also replace most of the requirements within ASC Topic 605.

The proposed standard focuses on the contract with a customer and revenue is recognised when goods and/or services are transferred to the customer. The standard identifies five steps for application:

- i) Identify the contract(s) with a customer
- ii) Identify the separate performance obligations in the contract
- iii) Determine the transaction price
- iv) Allocate the transaction price to separate performance obligations
- v) Recognise revenue when the entity satisfies each performance obligation.

The aims of the proposed standard are:

- Removing inconsistencies in existing requirements
- Providing a more robust framework for addressing revenue recognition issues
- Improving comparability across companies, industries and capital markets
- Requiring enhanced disclosure
- Clarifying accounting for contract costs.

The changes may impact a number of entities across a range of industries. Most notably the current method of recognising revenue

based on the percentage of completion may no longer be valid and revenue will be recognised on satisfying performance obligations or on delivery.

Comments are due by 22 October 2010.

Exposure Draft – Leases

The IASB and the US FASB have jointly released an exposure draft of a new standard which would bring all leases onto the statement of financial position.

The treatment in existing standards that allows for classification of a lease as an operating lease, where the future liabilities are kept off the statement of financial position, would be removed. A lessee would be required to recognise the right to use the underlying asset in the statement of financial position and a liability in respect of future rentals. Amortisation and interest would be recognised in the income statement.

The exposure draft introduces two models for lessors: a performance obligation approach, where the lessor retains exposure to significant risks or benefits associated with the underlying asset; and a derecognition approach, used when the lease transfers all but a trivial amount of the risks or benefits associated with the underlying asset. The exposure draft also proposes substantial new disclosure requirements.

The standard has been met with some criticism from a number of sources as the impact of the lessee having to show additional liabilities may restrict its ability to secure further borrowing.

Comments are due by 15 December 2010.

Exposure Draft – Measurement Uncertainty Analysis Disclosure for Fair Value Measurements

This is a limited scope re-exposure of an exposure draft issued in 2009 as Fair Value Measurement by the IASB. The original exposure draft proposed a three level hierarchy for inputs for valuation techniques used to measure fair value which are as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

The new exposure draft requires that where level three inputs are used, disclosure should be made of:

- An analysis of the measurement uncertainty for fair value measurements, including results obtained using other reasonable inputs if the result is significantly higher or lower

- If relevant, the correlation between unobservable inputs
- The valuation techniques and inputs used in the fair value measurements.

Comments on the exposure draft are currently being analysed.

Exposure Draft – Presentation of Items of Other Comprehensive Income (Limited Amendments to IAS 1)

The IASB has released an exposure draft outlining proposed changes to IAS 1. The changes would require items of other comprehensive income to be presented after profit or loss in a single “statement of profit or loss and other comprehensive income”.

The new presentation would retain the key principles of the income statement plus the items of other comprehensive income in one statement. There will be no changes to the calculation of earnings per share or the attribution of profit or loss between the parent shareholder and non-controlling interests. Items will be grouped on the basis of whether they will eventually be reclassified from other comprehensive income to profit and loss.

The proposed standard does not prescribe how the statement should be presented other than proposed titles, totals and subtotals; entities may still use titles other than those in the exposure draft and present additional line items, headings and subtotals if they are deemed to provide a better understanding for the user.

Comments are due by 30 September 2010

Exposure Draft – Proposed Amendments to IFRS 1

The IASB has released an exposure draft of proposed amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards. The proposal would remove the fixed date of transition to IFRS of 1 January 2004 to ‘the date of transition to IFRS’.

As a result of the changes, entities will need to apply the derecognition requirements of IAS 39 prospectively from the date of transition to IFRS rather than 1 January 2004, and would also not have to recalculate “day 1” differences on initial recognition of financial instruments, where the transaction occurred before the date of transition to IFRSs.

Comments are due by 27 October 2010.

Exposure Draft – Fair Value Option for Financial Liabilities

The IASB has released an exposure draft covering the financial liabilities section of IFRS 9 – Financial Instruments. This is part of the IASB’s project to replace IAS 39 – Financial Instruments: Recognition and Measurement, and follows the release of the first part of IFRS 9 earlier this year which covered financial assets (as

reported in the February 2010 edition of International **INSIGHT**. Further exposure drafts covering hedge accounting and derecognition are expected in 2010.

The exposure draft is limited in scope, and has retained the measurement and classification of financial liabilities in the original standard with the exception of particular requirements relating to the fair value option and addressing the effects of changes in the credit risk of liabilities.

The proposed approach is that gains and losses resulting from changes in own credit, for financial liabilities that an entity chooses to measure at fair value, should be categorised to other comprehensive income, and will not affect reported profit or loss.

Comments on the exposure draft are currently being analysed.

Exposure Draft – Defined Benefit Plans – Proposed Amendments to IAS 19

The IASB has released an exposure draft outlining proposed changes to accounting for defined benefit plans. The proposals maintain the measurement requirements of IAS 19, but introduce significant changes to the recognition, presentation and disclosure of defined benefit plans.

The current standard allows an entity to defer recognition of changes to the net defined benefit asset or liability arising from actuarial gains or losses by using the corridor approach which allows gains or losses to be spread over a number of years. This principle has led to misleading statement of financial positions, with assets showing when the plan is in deficit.

The exposure draft proposes that actuarial gains or losses be recognised immediately.

The presentation of items relating to defined benefit plans has been changed to define clearly where costs should be recognised as follows:

- Service cost – to be included in the income statement
- Finance cost – finance costs relating to defined benefit schemes to be presented as part of finance cost within the income statement
- Remeasurement – included in other comprehensive income.

The disclosure requirements have been amended to improve understandability and usefulness.

Comments on the exposure draft are currently being analysed.

Exposure Draft – Deferred Tax: Recovery of Underlying Assets (Proposed Amendments to IAS 12)

The IASB has released an exposure draft outlining a proposed amendment to allow an exception to the principle that deferred tax

liabilities and deferred tax assets should reflect the tax consequences that would follow the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

The exception is that when the deferred tax arises from investment property, intangible assets or property plant and equipment measured at fair value, the measurement should reflect a rebuttable presumption that the underlying asset will be recovered entirely by sale unless there is clear evidence the recovery will be in another matter.

Comments are to be received by 9 November 2010.

Exposure Draft – Insurance Contracts

The IASB has released an exposure draft as part of the second phase in the project to make significant improvements to IFRS 4, Insurance Contracts.

The project, initiated in 1997, addresses concerns that users of financial statements see current insurance accounting practices as not being able to provide relevant information about an insurer's financial position and financial performance. This is due to the fact that the current standard allows for diverse and varied accounting practices. The project became a joint project with the FASB in 2008, and following the release of this exposure draft by the IASB, the FASB has released a discussion paper containing the proposals.

The exposure draft proposes the use of a "building block approach" for measurement of insurance contract obligations. These are:

- An explicit, unbiased and probability-weighted estimate of the future cash outflows less the future cash inflows that will arise as the insurer fulfils the insurance contract
- A discount rate that adjusts those cash flows for the time value of money
- An explicit estimate of the effects of uncertainty about the amount and timing of those future cash flows.

The proposals will see a unified approach for all insurance and reinsurance contracts, both life and non-life.

Comments are to be received by 30 November 2010.

Draft Interpretation – Stripping Costs in the Production Phase of a Mine

The IFRS Interpretations Committee, the interpretative body of the IASB, has released a draft interpretation on accounting for stripping costs in the production phase of a surface mine.

The draft interpretation has proposed a definition of stripping costs and requires them to be accounted for as an additional component of an existing asset, and that this component should be written down over the reserves that directly benefit from the stripping campaign.

Comments are due by 30 November 2010.

LIST OF FINANCIAL REPORTING DEVELOPMENTS

New Standard

IFRS 9: Financial Instruments

Effective Date

Accounting periods beginning on or after 1 January 2013

Amended Standards

IAS 1: Presentation of Financial Statements

Effective Date

Accounting periods beginning on or after 1 January 2009

IAS 23: Borrowing Costs

Accounting periods beginning on or after 1 January 2009

IAS 24 (Revised 2009) – Related Parties

Accounting periods beginning on or after 1 January 2011

IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

Accounting periods beginning on or after 1 January 2009

IAS 32: Financial Instruments: Presentation – Classification of Rights Issues

Accounting periods beginning on or after 1 February 2010

IFRS 3: Business Combinations and IAS 27: Consolidated and Separate Financial Statements

Accounting periods beginning on or after 1 July 2009

IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements

Accounting periods beginning on or after 1 July 2009

IFRS 2: Share-based Payments

Accounting periods beginning on or after 1 January 2009 and 1 January 2010

IFRS 7: Financial Instruments – Disclosures

Accounting periods beginning on or after 1 January 2009

IAS 39: Financial Instruments – Recognition and Measurement

Accounting periods beginning on or after 1 July 2009

Annual Improvements Project

Effective Date

Improvements to Standards 2009

Accounting periods beginning on or after 1 July 2009 or 1 January 2010

Latest Interpretations

Effective Date

IFRIC 11 IFRS 2: Group and Treasury Share Transactions

Withdrawn as of 1 January 2010, incorporated into IFRS 2

IFRIC 8 Scope of IFRS 2

Withdrawn as of 1 January 2010, incorporated into IFRS 2

IFRIC 17: Distributions of Non-cash Assets to Owners

Effective for accounting periods beginning on or after 1 July 2009

IFRIC 18: Transfers of Assets from Customers

Effective for accounting periods beginning on or after 1 July 2009

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

Effective for accounting periods beginning on or after 1 July 2010

Amendments to Interpretations

Effective Date

Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective for accounting periods beginning on or after 1 July 2011

LIST OF FINANCIAL REPORTING DEVELOPMENTS (continued)

Current Proposals – Discussion Papers

Discussion Paper: Financial Instruments with Characteristics of Equity

Discussion Paper: Preliminary Views on Financial Statement Presentation

Discussion Paper: Preliminary Views on Insurance Contracts

An Improved Conceptual Framework for Financial Reporting

Status

Exposure draft due first quarter 2011

Project is continuing

Exposure draft due fourth quarter 2010

Project is continuing

Current Proposals – Exposure Draft

Exposure Draft: Consolidated Financial Statements

Exposure Draft: Investments in Debt Instruments

Exposure Draft: Discontinued Operations: (Proposed Amendments to IFRS 5)

Exposure Draft: Simplifying Earnings per Share (Proposed Amendments to IAS 33)

Exposure Draft: Joint Arrangements

Exposure Draft: Fair Value Measurement

Exposure Draft: De-recognition (Proposed Changes to IAS 39 and IFRS 7)

Exposure Draft: Financial Instruments: Amortised Cost and Impairment

Exposure Draft: Financial Instruments: Classification and Measurement – financial liabilities

Exposure Draft: Measurement of Liabilities in IAS 37

Exposure Draft: Measurement Uncertainty Analysis Disclosure for Fair Value Measurements

Exposure Draft: Proposed Amendments to IFRS 1

Exposure Draft: Leases

Exposure Draft: Revenue from Contracts with Customers

Exposure Draft : Fair Value Option for Financial Liabilities

Exposure Draft: Defined Benefit Plans (Proposed Amendments to IAS 19)

Exposure Draft: Presentation of Items of Other Comprehensive Income (Limited Amendments to IAS 1)

Exposure Draft: Insurance Contracts

Draft Interpretation: Stripping Costs in the Production Phase of a Mine

Exposure Draft: Deferred Tax: Recovery of Underlying Assets (Proposed Amendments to IAS 12)

Status

Revised standard expected fourth quarter 2010

Project incorporated into IFRS 9

Further exposure draft expected in 2011

Project delayed

Final standard expected fourth quarter 2010

Final standard expected first quarter 2011

Final standard expected fourth quarter 2010

Final standard expected second quarter 2011

Final standard expected second quarter 2011

Final standard expected second quarter 2011

Comments are currently being analysed

Comments due by 27 October 2010

Comments due by 15 December 2010

Comments due by 22 October 2010

Comments are currently being analysed

Comments are currently being analysed

Comments due by 30 September 2010

Comments due by 30 November 2010

Comments due by 30 November 2010

Comments due by 9 November 2010



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WorldHeadquarters

2 Bloomsbury Street
London WC1B 3ST
United Kingdom

T. +44 (0)20 7314 6875

F. +44 (0)20 7314 6876

E. info@bakertillyinternational.com

www.bakertillyinternational.com