

**Deloitte perspectives on financial  
accounting and reporting**

December 7, 2017

# Important caveats

- This webcast does not provide official Deloitte interpretive accounting guidance
- Consult your Deloitte advisor for additional support



Please note – No certificates will be provided for attending this update, we encourage stakeholders to check with their provincial institutes regarding potential CPD credits.

# Speakers

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# Agenda

## Year-end reminders

- Accounting guidance considerations
  - Amendments effective on or after January 1, 2017
  - Recent IFRIC Decisions
- Current Events
- Disclosure on standards issued, but not yet effective



Please note – The audio for today's presentation will be transmitted through your computer speakers.

# Year–end reminders

## Accounting considerations

# Amendments effective on or after January 1, 2017

<b>Standard</b>	<b>About the amendment</b>	<b>Application</b>
IAS 7 – Statement of Cash Flows	Disclosures of changes in liabilities arising from financing activities	Prospective
IAS 12 – Income Taxes	Recognition of deferred tax assets for unrealised losses	Retrospective or Modified retrospective
IFRS 12 – Disclosure of Interests in Other Entities	Clarifies the scope of IFRS 12 for interests classified as held for sale	Retrospective

# Amendments effective on or after January 1, 2017 (cont'd)

## IAS 7 [Disclosure initiative] – Reconciliation of liabilities arising from financing activities illustrative example

### Financing activities

Common share issuance	5,000
Proceeds from long-term debt <b>A</b>	<b>1,000</b>
Repayments of long-term debt <b>A</b>	<b>(2,000)</b>
Proceeds from short-term debt <b>B</b>	<b>500</b>
Repayments of short-term debt <b>B</b>	<b>(1,000)</b>
Financing lease payments <b>C</b>	<b>(800)</b>
Cash provided by financing activities	2,700

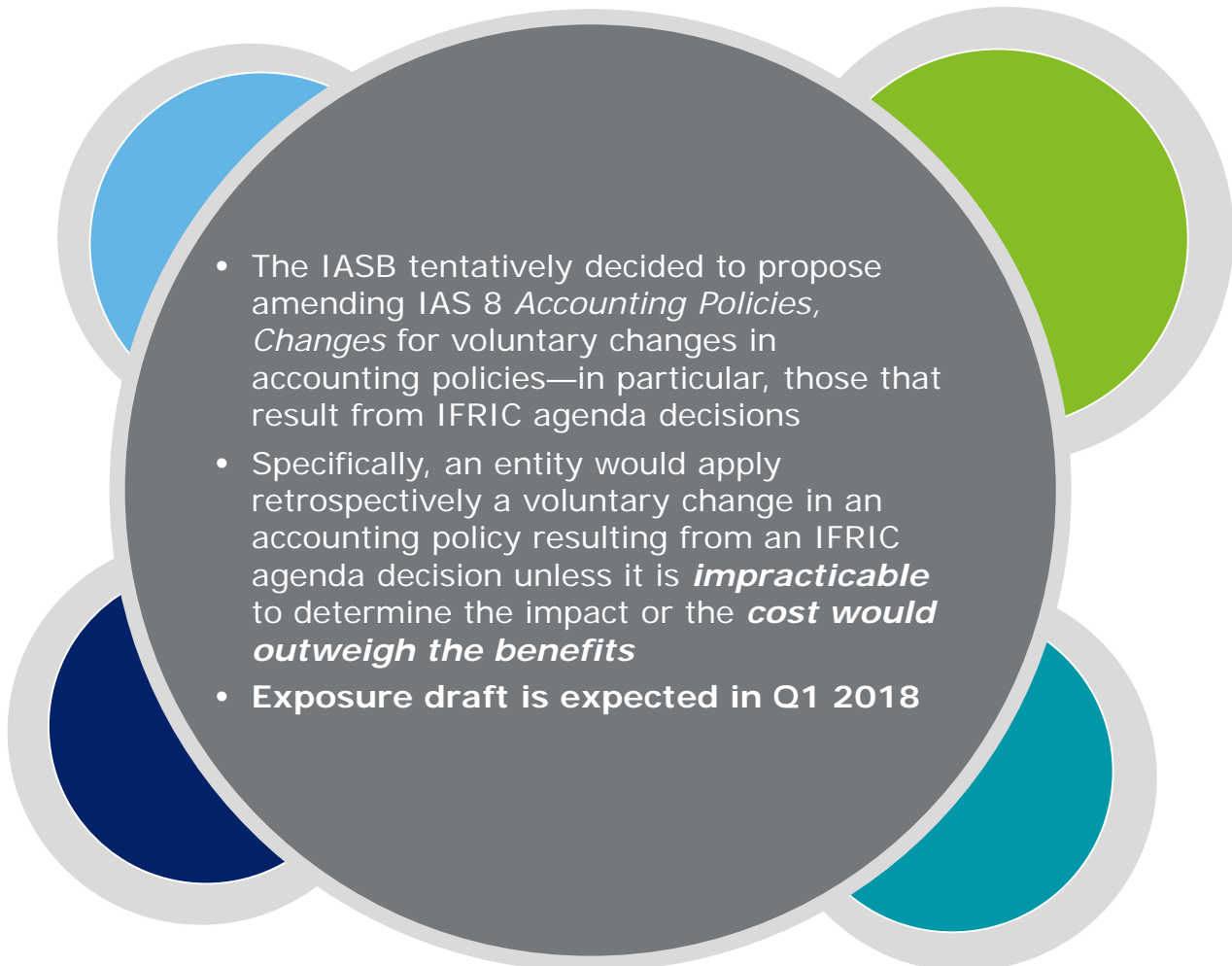
	2016 <sup>(1)</sup>	Cash flows <sup>(2)</sup>	Non-cash changes			2017
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	22,000	(1,000) ΣA	–	–	–	21,000
Short-term borrowings	10,000	(500) ΣB	–	200	–	9,700
Lease liabilities	4,000	(800) C	300	–	–	3,500
Assets held to hedge long-term liabilities	(675)	150	–	–	(25)	(550)
<b>Total liabilities from financing activities</b>	<b>35,325</b>	<b>(2,150)</b>	<b>300</b>	<b>200</b>	<b>(25)</b>	<b>33,650</b>

1) When the entity first applies these amendments in 2017, it is not required to provide comparative information for preceding periods.

2) The cash flows from long-term and short-term debt make up the net amount of proceeds and repayments presented in the statement of cash flows.

# IASB project plan

## Accounting policy changes – Amendments to IAS 8

- 
- The IASB tentatively decided to propose amending IAS 8 *Accounting Policies, Changes* for voluntary changes in accounting policies—in particular, those that result from IFRIC agenda decisions
  - Specifically, an entity would apply retrospectively a voluntary change in an accounting policy resulting from an IFRIC agenda decision unless it is ***impracticable*** to determine the impact or the ***cost would outweigh the benefits***
  - **Exposure draft is expected in Q1 2018**



# Complete list of IFRIC decisions

Meeting	Final IFRIC decisions
March 2017	<ul style="list-style-type: none"> <li>• <b>IFRS 10</b> <i>Consolidated Financial Statements</i>—Investment entities and subsidiaries</li> <li>• <b>IAS 12</b> <i>Income Taxes</i>—Recognition of deferred taxes when acquiring a single-asset entity that is not a business</li> <li>• <b>IAS 28</b> <i>Investments in Associates and Joint Ventures</i>—Fund manager’s assessment of significant influence</li> <li>• Commodity loans [not captured under any standard]</li> </ul>
June 2017	<ul style="list-style-type: none"> <li>• <b>IAS 19</b> <i>Employee Benefits</i>—Discount rate in a country that has adopted another country’s currency</li> <li>• <b>IAS 32</b> <i>Financial Instruments: Presentation</i>—Centrally cleared client derivatives</li> <li>• <b>IAS 33</b> <i>Earnings per Share</i>—Tax arising from payments on participating equity instruments</li> <li>• <b>IAS 41</b> <i>Agriculture</i>—Biological assets growing on bearer plants</li> </ul>
September 2017	<ul style="list-style-type: none"> <li>• <b>IFRS 1</b> <i>First-time Adoption of International Financial Reporting Standards</i>—Subsidiary as a first-time adopter</li> <li>• <b>IFRS 9</b> <i>Financial Instruments</i>—Financial assets eligible for the election to present changes in fair value in other comprehensive income</li> <li>• <b>IAS 12</b> <i>Income Taxes</i>—Interest and penalties related to income taxes</li> <li>• <b>IAS 38</b> <i>Intangible Assets</i>—Goods acquired for promotional activities</li> </ul>
Meeting	Tentative IFRIC decisions
June 2017	<ul style="list-style-type: none"> <li>• <b>IFRS 3</b> <i>Acquisition of a Group of Assets that does not Constitute a Business</i> [agenda decision to be finalized in November meeting]</li> </ul>
September 2017	<ul style="list-style-type: none"> <li>• <b>IAS 28</b> <i>Contributing Property, Plant and Equipment to an Associate</i></li> </ul>
September 2017	<ul style="list-style-type: none"> <li>• <b>IFRS 15</b> <i>Revenue Recognition in a Real Estate Contract</i></li> </ul>
Meeting	New issues
November 2017	<ul style="list-style-type: none"> <li>• <b>IFRS 15</b> <i>Revenue Recognition in a Real Estate Contract</i> that includes the transfer of land</li> </ul>
November 2017	<ul style="list-style-type: none"> <li>• <b>IFRS 15</b> <i>Revenue Recognition in a Real Estate Contract</i> Right to payment for performance completed to date</li> </ul>
November 2017	<ul style="list-style-type: none"> <li>• <b>IAS 1</b> and <b>IFRS 9</b> <i>Financial Instruments</i> Presentation of interest revenue for particular financial instruments</li> </ul>
Meeting	Items for consideration
November 2017	<ul style="list-style-type: none"> <li>• <b>IAS 37</b> <i>Provisions, Contingent Liabilities and Contingent Assets</i> Costs considered in assessing whether a contract is onerous</li> </ul>
November 2017	<ul style="list-style-type: none"> <li>• <b>IFRS 1</b> <i>First-time Adoption of International Financial Reporting Standards</i> Subsidiary as a first-time adopter</li> </ul>

# Recent IFRIC decisions

## IAS 12 *Income taxes* – Recognition of deferred taxes when acquiring a single-asset entity that is not a business

### What is the issue?

March 2017

Does the initial recognition exception in IAS 12 apply when an entity acquires a single asset entity that is not a business?

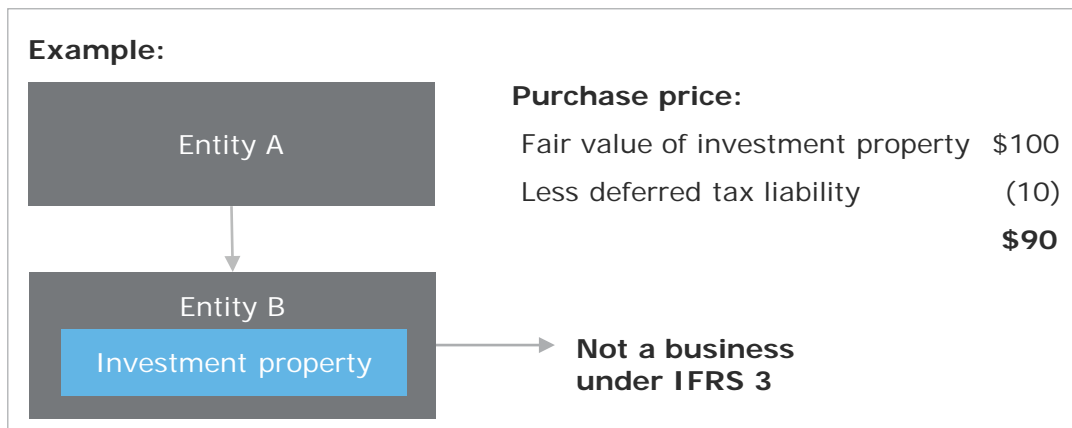
### Question

*Does Entity A recognize the deferred tax liability upon acquisition or allocate the \$90 purchase price entirely to the investment property?*

### IFRIC agenda decision

- Initial recognition exception in paragraph 15(b) of IAS 12 applies
- Entire purchase price of \$90 is allocated to the investment property and deferred tax liability is not recognized
- Day 2 gain may result if fair value accounting is applied to the investment property

Note: IAS 12.15(b) states that an entity does not recognize a deferred tax liability for taxable temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination



# Recent IFRIC decisions (cont'd)

## IAS 28 *Investments in associates and joint ventures* – Fund manager's assessment of significant influence

### Issue

March 2017

Under IFRS 10 *Consolidated Financial Statements*, an assessment of control requires an assessment of decision-making authority held in the capacity of an agent.

IAS 28 *Investments in Associates and Joint Ventures* does not address decision-making authority held in the capacity of an agent in the assessment of significant influence.

### Question

*How does a fund manager assess significant influence over a fund that it manages and in which it has an investment?*

### IFRIC agenda decision

- Definition of significant influence was not changed upon issuance of IFRS 10, therefore fund manager assesses significant influence by applying IAS 28

Example:



**IFRS 10 – Investment manager is an agent and does not control**

**IFRS 11 – Investment manager does not have joint control**

# Recent IFRIC decisions (cont'd)

## IAS 12 Income taxes – Interest and penalties related to income taxes

### Issue

September 2017

IFRS does not specifically address the accounting for interest and penalties related to income taxes

### IFRIC agenda decision

- Entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to interest and penalties
- If a particular amount payable or receivable for interest and penalties is considered by an entity to be an income tax, then apply IAS 12; if not, IAS 37 applies
- Judgement should be disclosed if a significant judgment
- Regardless of determination, disclosure requirements in IAS 12 and IAS 37 will result in information about those interest and penalties being disclosed, if it is material

Scope of IAS 12 previously discussed in the March 2006 and May 2009 IFRIC agenda summaries

## Recent IFRIC decisions (cont'd)

### IAS 38 *Intangible assets* – Goods acquired for promotional activities

#### Issue

September 2017

A pharmaceutical entity acquires goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. No enforceable rights and obligations are created.

Expenditures on advertising activities are within the scope of IAS 38 [per IAS 38.5]

#### Question

*How should the entity account for any such goods that remain undistributed at its reporting date?*

#### IFRIC agenda decision

If an entity acquires goods solely to be used to undertake advertising or promotional activities, it applies IAS 38.69 and expenses such goods when the entity has a right to access those goods (i.e., when it owns them) regardless of when it distributes them.

# Recent IFRIC decisions (cont'd)

## IFRS 3 *Business combinations* – Acquisition of a group of assets that does not constitute a business

### Issue

June and  
November 2017

How an entity accounts for the acquisition of a group of assets that does not constitute a business when:

- a. The sum of the individual fair values of the identifiable assets and liabilities is different from the transaction price; and
- b. The group includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost.

### Question

*How should an entity allocate the transaction price to the identifiable assets acquired and liabilities assumed?*

### IFRIC agenda decision

#### **Approach 1:**

- Identify individual identifiable assets acquired and liabilities assumed date of the acquisition;
- Allocate cost of the 'group' based on the relative fair values at the date of acquisition
- Apply the initial measurement requirements in applicable Standards to each identifiable asset/liability – any difference is accounted for under the relevant requirements

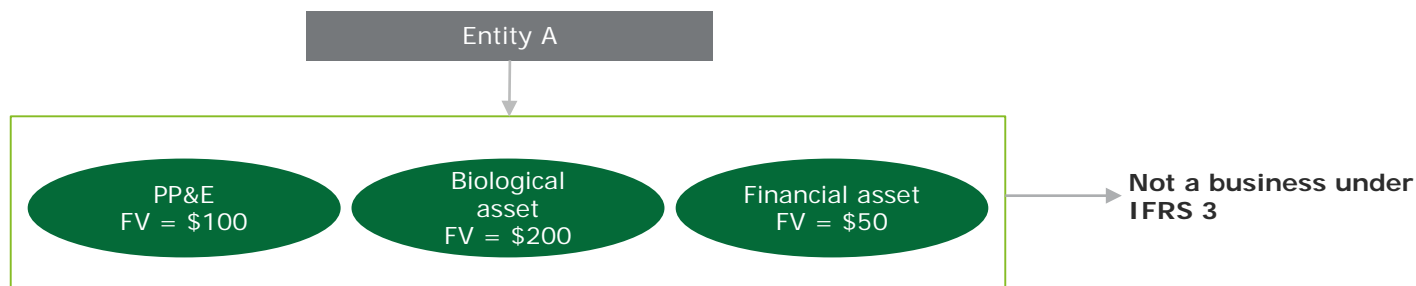
#### **Approach 2:**

- For any identifiable asset/liability initially measured at an amount other than cost, measure in accordance with applicable Standard
- Deduct from transaction price amounts allocated to the assets/liabilities initially measured at an amount other than cost
- Allocate residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values

***An entity should apply either approach 1 or 2 consistently to all such acquisitions***

# IFRS 3 *Business combinations* – Acquisition of a group of assets that does not constitute a business – Example

Entity A acquires a group of assets for **\$330**.



## Approach 1 –

Asset	Applicable standard	Transaction price	Immediate gain/(Loss)
PP&E	IAS 16	\$94 ( $\$330 * \$100/\$350$ )	Nil
Biological Asset	IAS 41	\$189 ( $\$330 * \$200/\$350$ )	\$11 (FV 200 – 189)
Financial Asset	IFRS 9/IAS 39	\$47 ( $\$330 * \$50/\$350$ )	\$3 (FV 50 – 47)

## Approach 2 –

Asset	Applicable standard	Transaction price	Immediate gain/(Loss)
PP&E	IAS 16	\$80 ( $\$330 - \$200 - \$50$ )	
Biological Asset	IAS 41	\$200	Not applicable
Financial Asset	IFRS 9/IAS 39	\$50	

# Year–end reminders

## Current events



# Current events

## Changes to bank of Canada published exchange rates

### What?

- Daily noon, closing, and high/low FX rates no longer published
- Replaced by daily average rate per currency pair at 16:30 ET each day
- Reduction in # of currencies available

### When?

Effective May 1, 2017

### Who?

- Entities that use Bank of Canada rates for:
  - General business use
  - Commercial contracts or as a benchmark for transactions
  - Accounting purposes, or
  - To meet legal requirements, e.g., Income Tax Act, or through contractual agreements

### Where?

Additional information is available on the Bank of Canada's website

Also discussed at the November 2016 IDG meeting

# Current events (cont'd)

## Cap and trade program

### The "Cap"

- Declining limit on how many tonnes of greenhouse gas (GHG) pollution businesses can emit



### The "Trade"

- Companies can trade (i.e., buy or sell) allowances via auction or secondary market.

- Participants are issued allowances. If these allowances are exceeded, credits must be purchased to be applied against the amount in excess of the cap.

Types of participants: Mandatory, voluntary and market

Is your organization a participant?

### Additional resources:

#### CPA Canada Webinar:

<https://www.cpacanada.ca/en/career-and-professional-development/webinars/core-areas/financial-and-non-financial-reporting/ifrs/webinar-cap-and-trade>

#### CPA Canada Publication:

<https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/international-financial-reporting-standards-ifrs/publications/accounting-for-cap-and-trade-transactions>

# Current events (cont'd)

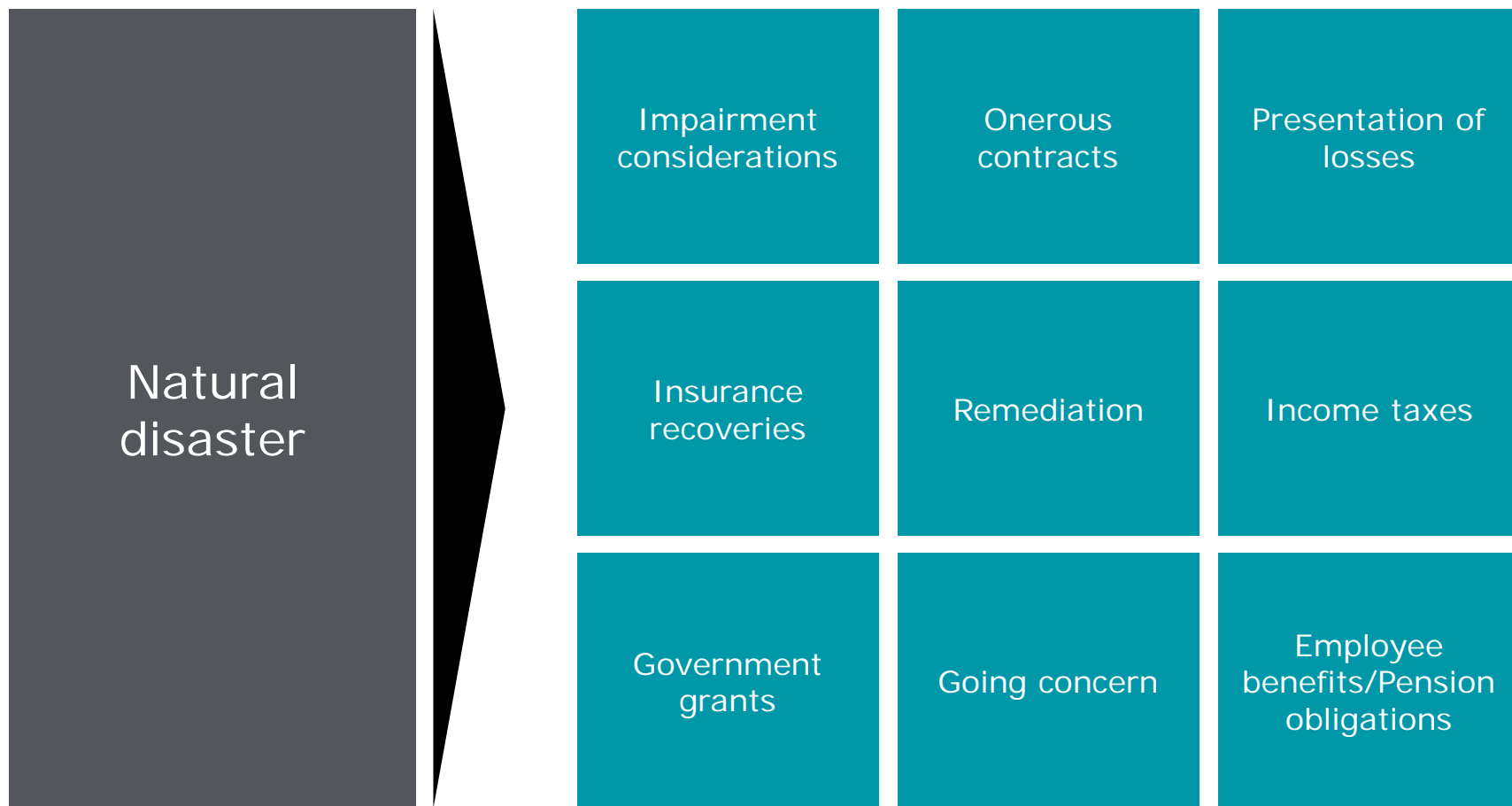
## Cap and trade program – Summary accounting of approaches

		Approach 1: Apply IFRIC 3	Approach 2: Government grant approach	Approach 3: Net liability approach
<b>Balance sheet</b>	<b>Intangible asset</b> (Day 1)	<ul style="list-style-type: none"> <li>At fair value</li> </ul>	<ul style="list-style-type: none"> <li>At fair value</li> </ul>	<ul style="list-style-type: none"> <li>Nil (if granted at no charge)</li> <li>At fair value (if purchased)</li> </ul>
	<b>Intangible asset</b> (Subsequent Measurement)	<ul style="list-style-type: none"> <li>Cost or;</li> <li>Fair value*</li> </ul>	<ul style="list-style-type: none"> <li>Cost or;</li> <li>Fair value*</li> </ul>	<ul style="list-style-type: none"> <li>If granted – Nil</li> <li>If purchased- Cost or;</li> <li>Fair value*</li> </ul>
	<b>Deferred income</b> government grant	<ul style="list-style-type: none"> <li>Difference between fair value and amount paid</li> </ul>	<ul style="list-style-type: none"> <li>Difference between fair value and amount paid</li> </ul>	N/A
	<b>Liability</b> (as emissions are made)	<ul style="list-style-type: none"> <li>Under IAS 37 (at the present market price of the number of allowances required to cover emissions)</li> </ul>	<ul style="list-style-type: none"> <li>Measured by reference to the amount recorded for the emission permits held as assets that will be used to settle the liability</li> <li>Record any shortfall at fair value</li> </ul>	<ul style="list-style-type: none"> <li>Record fair value of shortfall (actual emissions exceed the permits granted and still held)</li> </ul>
<b>Income statement</b>	<b>Expense</b> related to liability	<ul style="list-style-type: none"> <li>As liability is recognized</li> </ul>	<ul style="list-style-type: none"> <li>As liability is recognized</li> </ul>	<ul style="list-style-type: none"> <li>As liability is recognized</li> </ul>
	<b>Income related to government grant</b>	<ul style="list-style-type: none"> <li>Recognized systematically over the compliance period</li> </ul>	<ul style="list-style-type: none"> <li>Recognized systematically over the compliance period</li> </ul>	N/A

\* If the fair value model is selected any increase in fair value will be recognized in OCI, as per IAS 38.

# Current events (cont'd)

## Financial reporting implications of natural disasters



# Year-end reminders

Disclosure on standards issued,  
but not yet effective

# Disclosure of accounting standards issued but not yet effective

## Increased focus

IAS 8.30 requires entities to disclose "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".

Regulators have communicated their expectation that *disclosures regarding an entity's adoption plan* for the new standards [IFRS 9, 15, and 16] be *increasingly robust as the respective effective dates approach*<sup>[1]</sup>

Regulators are also strongly encouraging management, audit committees, and auditors of reporting issuers to have *extensive discussions about the impact and progress of transition to the new standards* [IFRS 9, 15, and 16]<sup>[1]</sup>.

1) Refer to Ontario Securities Commission Staff Notice 52-723, Office of the Chief Accountant Financial Reporting Bulletin, issued in November 2016.

# Disclosure of accounting standards issued but not yet effective

## Considerations

**Transition method**

**Status of transition, significant milestones and anticipated timelines**

**Expected changes in accounting policies and expected directional or quantitative impacts**

**Reportable segments that are expected to be most significantly affected**

**Potential implications on ICFR, data systems, IT**



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