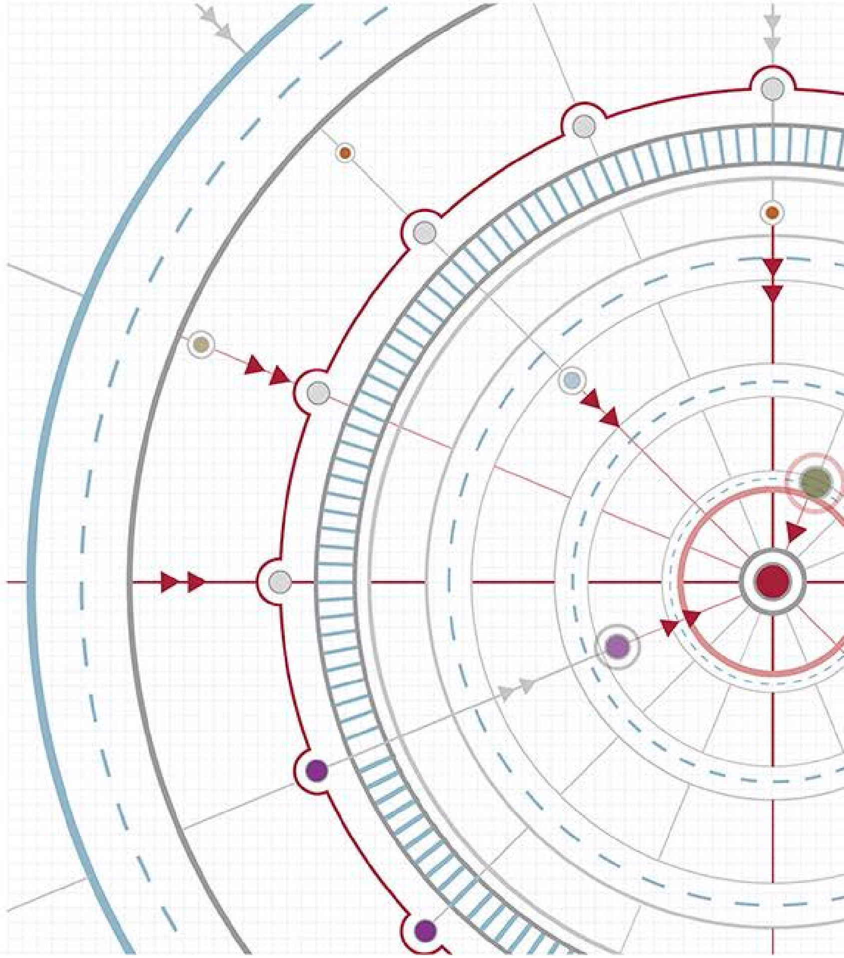

Disclosure Initiative: Accounting Policy Disclosure

Siobhan Hammond | shammond@ifrs.org | +44 (0)20 7246 6937

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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Purpose of the session

- Provide a brief summary of the Exposure Draft *Disclosure of Accounting Policies*, published in August 2019
- Ask GPF members to share their preliminary views on the Exposure Draft

Questions for the GPF

1. Will applying the concept of materiality, instead of the concept of significance, make it easier for preparers to identify and disclose *only* that accounting policy information which is material to the financial statements?
2. Does the list of examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements in Appendix A accurately and helpfully describe such circumstances? If not, why? Are there other examples you would suggest including?
3. Do the two examples included in Appendices B and C demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures? If not, why and what would you suggest instead?

Overview

Comments to be received by
29 November 2019

Amendments to:

- IAS 1 *Presentation of Financial Statements*
- IFRS Practice Statement 2 *Making Materiality Judgements*

Objective

- require disclosure of material instead of significant accounting policies
- help entities apply the concept of materiality in making decisions about accounting policy disclosures

The Exposure Draft can be obtained from the Board's website here

Exposure Draft *Disclosure of Accounting Policies*

Introduction

- The Board proposes to amend IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* to:
  - require an entity to disclose its material accounting policies instead of its significant accounting policies; and
  - help entities apply the concept of materiality in making decisions about accounting policy disclosures
- The proposed amendments are intended to help entities:
  - identify and disclose all accounting policies that provide material information to primary users of financial statements; and
  - identify immaterial accounting policies and eliminate them from their financial statements

Proposed amendments to IAS 1 *Presentation of Financial Statements*

- The Board proposes to amend IAS 1 to require an entity to disclose its material accounting policies
- The proposals state that information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can influence primary users' decisions about the entity
- The proposals also list examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements (see Appendix A)

Proposed amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

- To support the proposed amendments to IAS 1, the Board also proposes amending IFRS Practice Statement 2 to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements
- The guidance and examples support the proposed amendments by:
  - highlighting the need to focus on useful information for users of financial statements; and
  - demonstrating how the four-step materiality process of IFRS Practice Statement 2 can address:
    - standardised (or 'boilerplate') information disclosed about accounting policies material to the financial statements (see Appendix B); and
    - accounting policy disclosures that contain only information that duplicates the requirements of IFRS Standards (see Appendix C)

Appendix A: Proposed new paragraph 117B of IAS 1

IFRS

Proposed new paragraph 117B of IAS 1

- …For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:
  - (a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;
  - (b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;
  - (c) was developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies;

    …

Proposed new paragraph 117B of IAS 1

…

(d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

(e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

Appendix B:
Proposed new Example S for IFRS Practice Statement 2

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised (‘boilerplate’) accounting policy disclosures (1/4)

Background

An entity operates within the telecommunications industry. It has entered into a number of contracts with retail customers to deliver both a mobile phone handset and data services. A typical contract is one in which the entity will provide a customer with a handset and data services over a three-year period.

The entity applies IFRS 15 *Revenue from Contracts with Customers* and recognises revenue when, or as, it satisfies its performance obligations in line with the terms of the contract.

The entity has identified the following performance obligations and related considerations:

(a) handset—the customer makes monthly payments for the handset over three years; and

(b) data—the customer pays a fixed monthly charge to use a specified amount of data each month for a period of three years.

…

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised (‘boilerplate’) accounting policy disclosures (2/4)

…

For the handset, the entity recognises revenue when it has satisfied the performance obligation (ie when it provides the handset to the customer). For the provision of data, the entity recognises revenue as it satisfies the performance obligation (ie as the entity provides data services to the customer over the three-year life of the contract).

The entity has concluded that revenue generated from these contracts is material to the reporting period.

Application

The entity notes that for this type of contract there are two separate accounting policies for two distinct sources of revenue:

(a) revenue for the sale of handsets; and

(b) revenue for the provision of data services.

…

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised (‘boilerplate’) accounting policy disclosures (3/4)

…

Having identified that revenue from contracts of this type is material to the financial statements, the entity assesses whether its accounting policies for revenue from these contracts are, in fact, material.

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

(a) were not changed during the reporting period;

(b) were not chosen from alternatives in IFRS Standards; and

(c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies.

…

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised ('boilerplate') accounting policy disclosures (4/4)

…

However, the entity's revenue recognition accounting policies relate to an area for which the entity:

(a) has made significant judgements in applying its accounting policies, for example, in deciding how to allocate the transaction price to the performance obligations; and

(b) has had to consider how the requirements of the Standard apply to its own circumstances.

Consequently, the entity concluded that disclosing the accounting policies for revenue recognition is likely to be necessary for the primary users of its financial statements to understand information in the financial statements and could reasonably be expected to influence those users' decisions. For example, understanding that some revenue is recognised at a point in time and some is recognised over time is likely to help users understand how reported cash flows relate to revenue. The entity therefore assessed information about the accounting policies for revenue recognition, including information about the timing of revenue recognition, as material.

Appendix C:
Proposed new Example T for IFRS Practice Statement 2

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards (1/5)

<u>Background</u>

Intangible assets and property, plant and equipment are material to an entity's financial statements. In 20X1 the entity disclosed the following accounting policy relating to impairment of non-current assets:

> *The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at least annually.*
>
> *An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.*
>
> …

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards (2/5)

…

The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In measuring value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

…

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards (3/5)

…

An impairment loss in respect of goodwill is not subsequently reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Application

Having identified that assets that are subject to impairment testing are material to the financial statements, the entity assesses whether its accounting policy for impairment is, in fact, material.

The entity's impairment accounting policy relates to an area for which the entity is required to make significant judgements or assumptions as described in paragraphs 122 and 125 of IAS 1.

…

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards (4/5)

…

However, the entity noted that it also makes disclosures about its impairment assessments and its significant judgements and assumptions (for example, the discount rate used to measure value in use) in meeting the disclosure requirements of IAS 36 *Impairment of Assets* and paragraphs 122 and 125 of IAS 1. The entity therefore concluded that there is no material information to include in a description of its impairment accounting policy that is not disclosed elsewhere in the financial statements.

…

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards (5/5)

…

The entity concluded that disclosing a separate accounting policy for impairment would not provide information that could reasonably be expected to influence decisions made by the primary users of the entity's financial statements based on those financial statements. This is because the accounting policy does not contain entity-specific information and only duplicates the requirements of IFRS Standards. However, the entity is still required to comply with the specific disclosure requirements of IAS 36 and paragraphs 122 and 125 of IAS 1, and provide information about how it has applied IAS 36 and those paragraphs of IAS 1 during the period, if that information is material.

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