

## Contents

- 1 IASB
- 11 EU Endorsement

### **New standard on accounting for leases**

With IFRS 16 "Leases", the IASB published a new standard on accounting for leases on 13 January 2016. The IASB and the US standard setter FASB initiated the joint project back in 2006 with the aim of introducing improved accounting for leases, in particular by the lessee. Differences of opinion in relation to a few key areas meant that they failed to arrive at a uniform standard. The IASB decided in favour of a single-model approach at the lessee, while the FASB implemented a dual model in its new standard on leases. Based on the single-model approach of the IASB, the lessee will have to recognise assets and liabilities for most leases in the statement of financial position. While the lessee no longer has to distinguish between operating leases and finance leases, this distinction will remain in place for lessors.

[Read more...](#)

# IASB

## New standard on accounting for leases

### Background

With IFRS 16 "Leases", the IASB published a new standard on accounting for leases on 13 January 2016. The IASB and the US standard setter FASB initiated the joint project back in 2006 with the aim of introducing improved accounting for leases, in particular by the lessee. Differences of opinion in relation to a few key areas meant that they failed to arrive at a uniform standard. The IASB decided in favour of a single-model approach at the lessee, while the FASB implemented a dual model in its new standard on leases. Based on the single-model approach of the IASB, the lessee will have to recognise assets and liabilities for most leases in the statement of financial position. While the lessee no longer has to distinguish between operating leases and finance leases, this distinction will remain in place for lessors.

**Note:** IFRS 16 replaces IAS 17 Leases as well as the corresponding interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" as well as SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The date for mandatory initial application is 1 January 2019, which however additionally presupposes corresponding EU endorsement in order to allow adoption in Germany. Voluntary early adoption is permitted only if IFRS 15 "Revenue Recognition" is also applied at the time.

### Scope

At inception of a contract, a company must already assess whether the contract is or contains a lease and whether IFRS 16, the new standard on accounting for leases, even applies. While the delimitation of the lease is not so problematic under IAS 17, it plays a major role in IFRS 16. IFRS 16 contains detailed rules on defining/delimiting a lease. The new standard is only applicable if a lease as defined by IFRS 16 exists. After inception of a contract, a reassessment is carried out only if the contractual terms have changed.

The new standard defines a lease as a contract that conveys the right to use (in the sense of control) an

identified asset ("right-of-use/ROU asset") for an agreed period of time in exchange for consideration. The leased asset must be identifiable and the lessee must be able to control it. The criterion of control presupposes that the lessee has the right to obtain substantially all of the economic benefits over the useful life of the asset and that the lessee has the right to direct the use of the identified asset. In principle, an asset is identified on the basis of the contract. However, if the lessor has a substantive right to exchange the asset, there is no identifiable asset and thus no lease as defined by IFRS 16. It should also be noted that the identifiability can also relate to a portion of an asset. However, this presupposes that the portion is physically distinct (e.g. a floor of an office building). Capacity portions of an asset cannot be the subject of a lease (e.g. a share in the capacity of a pipeline, output capacity of a fibre optic cable etc.).

In principle, IFRS 16 is applicable to all leases, i.e. to the provision of rights to use all assets (buildings, vehicles, machines, etc.) as well as to rental agreements. Sub-letting arrangements and sale and leaseback transactions also fall under the scope of IFRS 16.

The new rules do not apply to:

- leases to explore for or use natural resources,
- leases of biological assets within the scope of IAS 41,
- service concession arrangements within the scope of IFRIC 12,
- licenses of intellectual property granted by a lessor within the scope of IFRS 15,
- rights under licensing agreements within the scope of IAS 38.

For intangible assets that are not rights from the leases listed above, the standard gives the lessee an option as regards whether to apply the rules in IFRS 16 to such leases.

The new rules on lease accounting also grant the lessee two significant options not to apply the right of use (ROU) approach, i.e. these leases can be recognized in the statement of financial position in the same way as an operating lease in the past. It is possible to elect

not to apply the new rules if the leases are short-term leases or if the underlying asset is of low value (small ticket leases).

A short-term lease is a lease with a term of less than 12 months. When determining the lease term, options to extend the lease must be taken into account if it is reasonably certain that they will be exercised. By contrast, a purchase option cannot be agreed contractually in order for the option to be exercised.

Small ticket leases are all leases that are immaterial or insignificant for the business of the company when considered individually (e.g. leasing a photocopier and small items of IT equipment). The IASB specifies a value, when new, of USD 5,000 per asset as the materiality limit in the Basis for Conclusions (see IFRS 16.BC 100). The binding effect of this limit will be questioned in practice. The IASB also does not specify how to deal with any currency translation effects or the effects of inflation.

In principle, the rules in IFRS 16 are applicable to each individual contract. However, the lessee and the lessor have the option to create portfolios for contracts with similar characteristics. The prerequisite is that grouping contracts does not lead to materially different results than applying the standard to the individual leases within the portfolio.

**Note:** In the future, lessees must recognize assets and liabilities in the statement of financial position for most leases. Due to this uniform accounting model for the lessee and the limited exceptions from the scope of application, the determination of whether or not a lease as defined by IFRS 16 exists is particularly important. Compared with the rules in IAS 17, the new standard contains more extensive rules on the definition of a lease.

## Accounting treatment at lessee

### Initial recognition

The distinction made up to now between operating leases and finance leases will no longer apply with respect to the lessee. Based on the IASB's single-model approach, the lessee recognizes an ROU asset and a lease liability on the date on which the lessor provides the right to use to the asset to the lessee.

The lessee must recognize the lease liability at the present value of the future lease payments. The lease payments are made up of the following components:

- fixed lease payments, including in-substance fixed

- payments and less any incentives receivable,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

IFRS 16 does not use the same definition of minimum lease payments as that contained in IAS 17. In terms of content, the definitions differ in that IAS 17 does not recognize any variable payments. Under IFRS 16, not just fixed lease payments but also index-based variable lease payments or payments that depend for example on a market rate must be included in measurement. Variable lease payments that depend for example on revenue are not included in the initial measurement of the liability. Instead, they are not recognized until they are incurred.

The lease liability is recognized at the present value of the future lease payments at the beginning of the lease. For measurement, the interest rate implicit in the lease is used. This is the rate of interest that causes the present value of the lease payments and of the unguaranteed residual value to equal the fair value of the leased asset (plus any initial direct costs of the lessor). If it is not possible for the lessee to determine this interest rate, the incremental borrowing rate can be used.

At the commencement date, the lessee must measure the ROU asset at cost, which comprises the following components:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives in favour of the lessee,
- any initial direct costs incurred by the lessee.
- In addition, restoration obligations (e.g. dismantling, recultivation) from the use of the underlying asset for which a provision was recognized in accordance with IAS 37 must be taken into account in the measurement of the ROU asset.

### Subsequent measurement

Subsequent measurement of the lease liability is carried out in accordance with the effective interest method, i.e. the carrying amount of the lease liability is increased using the interest rate used for discounting and reduced

to reflect the lease payments made. This results in a declining balance of interest.

The ROU asset is measured at amortised cost in accordance with IAS 16, i.e. over the shorter of the useful life or the lease term. If it is reasonably certain at the beginning of the lease that ownership will transfer to the lessee, the asset is depreciated over the useful life of the underlying asset. In addition, any impairment of assets in accordance with IAS 36 "Impairment of Assets" must be recognized in income. The standard provides for two exceptions to the cost model: if the lessee applies the revaluation model in compliance with IAS 16 or if the right of use from the property lease meets the definition of an investment property pursuant to IAS 40 and the lessee applies the fair value model.

**Note:** Amortisation, depreciation and write-downs of the ROU asset and the interest expense for the lease liability are recognised and reported separately in the income statement. Compared to an operating lease under IAS 17, straight-line amortisation or depreciation of the ROU asset and the declining-balance interest from increasing the lease liability will lead to earlier

recognition of the expense in the income statement despite a constant lease instalment.

If the lease payments change, the lease liability is remeasured. A distinction must be made between whether remeasurement is carried out with or without adjustment of the original interest rate implicit in the lease. If there is a change in the lease term or in the assessment of exercise of a purchase option, the remeasurement is performed using a revised discount rate. By contrast, remeasurement must be based on the original discount rate if for example there is a change in the amount of the residual value guarantee or in future lease payments resulting from a change in an index or a rate. Remeasurement of the lease liability leads to a corresponding adjustment of the ROU asset. Negative adjustments exceeding the carrying amount of the ROU asset are recognised in income.

#### **Presentation of the lease liability and of the ROU asset**

Both the lease liability and the ROU asset should be reported separately in the statement of financial position. If there is no separate presentation, it must be explained in the notes which item in the statement



of financial position item contains the lease liability and the ROU asset. If the ROU asset is not reported separately, it must be reported under the item it would be reported under if the lessee had acquired ownership of the leased asset. ROU assets from property as defined by IAS 40 must be reported under investment property.

### Disclosures in the notes

In the future, more extensive quantitative and qualitative disclosures will be required in the notes in order to disclose the effects of the leases on the financial statements of the lessee. These include the type of lease, potential future cash outflows not taken into account in the lease liabilities, for example variable lease payments, options for the lessee to extend or cancel the lease etc. as well as sale and leaseback transactions. The disclosures in the notes are considerably more extensive than under IAS 17.

### Transition rule

Mandatory initial application applies to annual periods commencing on or after 1 January 2019. Early application is permissible provided that IFRS 15 is also applied in full. Companies accounting within the EU must, however, first wait for the standard to be transposed into EU law (EU endorsement). Upon initial application, there is an option not to have to reassess whether an existing lease contract is or contains a lease as defined by IFRS 16. If this option is used, only contracts that fell under the scope of IAS 17 and IFRIC 4 in the past are accounted for in accordance with IFRS 16. Use of this option must be disclosed in the notes.

In addition, the lessee can choose between full retrospective application and modified retrospective application of the standard.

Full retrospective application must be in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", with the comparative periods adjusted accordingly.

In the case of modified retrospective application, it is not necessary to adjust the comparative periods. The cumulative effect from retrospective application is recognized on the date of initial application as an adjustment of the opening balance in the statement of financial position for retained earnings or in another appropriate equity item. The lease liability must be reported at the present value of the outstanding lease payments, discounted using the incremental borrowing rate on the date of initial application. To calculate the carrying amount of the ROU asset, there is an option

between the value that would result if the standard had always been applied and the amount of the lease liability on the date of initial application (adjusted for lease payments recorded in advance).

IFRS 16 grants further options for the transition phase, e.g. an option to waive an adjustment for short-term leases, small ticket leases and operating leases that fall under the scope of IAS 40 and are reported using the fair value model.

**Note:** The picture on the lessee's statement of financial position will change materially on account of the on-balance-sheet reporting. The debt/equity ratio will increase and the equity ratio will decrease, which can also impact on existing covenants in loan agreements. At the same time, the changed disclosure in the income statement can affect earnings figures. In the past, the lease expenses for operating leases were included in operating expenses, but in the future these will be divided between interest expenses and depreciation (EBIT). The effect of the earlier recognition of expenses on account of the new accounting model should not be underestimated either. With just a few exceptions, all active lease contracts should be examined by companies to ensure that the provisions can be adopted. The new lease model will bring with it technical and organisational challenges for the lessee in relation to the adjustment of existing IT systems and internal processes.

### Lessor

There are scarcely any changes in the accounting at the lessor arising from the introduction of the new IFRS 16 for leases. When entering a contract, the lessor must classify the lease as a finance lease or an operating lease according to various criteria. The list of criteria for determining a finance lease was adopted unchanged from IAS 17. It should, however, be noted that the changed definition of a lease also applies to the lessor. This can lead to a differing assessment from that under IAS 17.

In terms of the accounting (initial and subsequent measurement, amortisation, depreciation and write-downs), there are no material changes for operating leases or finance leases compared with the rules in IAS 17, with the exception of sale and leaseback transactions.

**Note:** The conceptual rupture between the accounting at the lessee and the accounting at the lessor could result in the recognition of an asset and a lease liability for both, the lessee and the lessor.

## Amendments to IAS 7

The International Accounting Standards Board (IASB) published amendments to IAS 7 "Statement of Cash Flows" on 29 January 2016. Among other things, the amendments are the result of the Disclosure Initiative. This is a project initiated in 2013 with the aim of improving and simplifying presentation and disclosure requirements in existing standards. In relation to IAS 7, investors and others have expressed the desire to make presentation more transparent in terms of the financing activities (liabilities) of a company. The IASB responded to this request, separating out the topic "Liabilities arising from financing activities" from the topic "Liquidity". The presentation of liquidity is another project on IAS 7 for which further, more in-depth analyses are required before the IASB can present results for the second project. The following therefore relates only to the first project "Liabilities arising from financing activities", which has now been completed.

The amendments to IAS 7 should improve the information published in IFRS financial statements concerning changes in the liabilities of a company. The amendments focus on liabilities that generate or will generate cash flows and that are attributable to financing activities of a company as defined by IAS 7. Related financial assets must also be included in the disclosures (for example assets from hedging transactions).

Under the premise of information relevant for decision making by the users of financial statements, a company must make disclosures on liabilities arising from financing activities substantially in the following cases:

- cash changes,
- changes arising from obtaining or losing control of subsidiaries or other businesses,

- the effect of changes in foreign exchange rates,
- changes in fair values.

The IASB states that one way to fulfil the disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The reconciliation should include at least the items listed. Also, the reconciliation should be prepared such that it provides sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows. Based on the Illustrative Examples in IAS 7, the following figure aims to give an impression of the proposed reconciliation:

	20X1	Cash flows	Non-cash changes			20X1
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	22,000	(1,000)	-	-	-	21,000
Short-term borrowings	10,000	(500)	-	200	-	9,700
Lease liabilities	4,000	(800)	300	-	-	3,500
Assets held to hedge long-term borrowings	(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>

**Note:** The amendments are effective for the first time for annual periods commencing on or after 1 January 2017. Early adoption is permitted. Companies that prepare their IFRS financial statements in accordance with the EU Regulation on IFRS must, however, first wait for the standard to be transposed into EU law (endorsement). In general, companies adopting the standard for the first time would have to provide comparative information. However, because the amendments were published less than a year before the effective date, companies do not have to provide comparative figures upon initial application.

## Amendments to IFRS 15

On 12 April 2016, the IASB published the final amendments to IFRS 15 "Revenue from Contracts with Customers".

IFRS 15 was published in its original version at the end of May 2014 and deals with the topic of revenue recognition for all industries. The standard replaces the standards (IAS 11 and IAS 18) and interpretations (IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31) applicable to date, removing existing inconsistencies and addressing gaps in the rules (e.g. regarding the accounting treatment of multiple-element arrangements).

The transition process is accompanied by the Transition Resource Group (TRG). This advisory committee is available to provide advice to companies that encounter problems and difficulties in applying the standard and also informs the standard setter (IASB) of current developments. As a result of the work of the TRG, the IASB published amendments to IFRS 15 on 12 April 2016. The aim of the new amendments is to avoid differing implementation methods and thus to reduce the related costs and complexity. Like the standard per se, the final amendments are applicable on or after 1 January 2018. However, early adoption is not permitted. The amendments do not affect the key principles of the standard, instead they aim to clarify those principles and relate to the identification of distinguishable performance obligations of a contract, determining whether a company is the principal or agent in a transaction, determining whether income from granting licenses is recognised over time or at a point in time, as well as expedients for the transition rules.

### Identifying performance obligations

To apply IFRS 15, a company must identify a separate performance obligation. This is the case if the customer can benefit from the good or service on its own, e.g. by utilisation or sale, or in conjunction with other readily available resources, and the promise to transfer the good or service is separately identifiable from other promises in the contract. This means that a performance obligation must be identified on the basis of separately identifiable promises of goods or services, i.e. the promise must be "distinct" within the context of the contract. This is the point addressed by the clarification. The IASB has specified how a company determines when promised goods or services are "separately identifiable" from other promises in the contract. Accordingly, the company must broaden its assessment of the contract and determine whether the nature of the promise is to transfer goods and services

individually (alternative 1) or to transfer a combined item to which the promised goods and/or services are merely inputs (alternative 2).

### Principal versus agent relationships

When a third party is involved in the supply of goods and/or the provision of services, the company must determine who is acting as a principal and who is acting as an agent. Ultimately this decision influences whether the revenue is recognised as a gross figure or merely as a net figure at the amount of the agent commission. To determine who is acting as a principal and who is acting as an agent, the new rules in IFRS 15 provide for a two-stage process. The first step is to identify the specific performance for the customer. Then, in a second step it must be clarified who controls this performance before control is transferred. If the company has control before transfer to the customer, the company is the principal. This means that it is possible for companies to act partly as the principal and partly as the agent for individual goods or services from one single contract. The amendments in IFRS 15 contain indicators for the transfer of control, including the inventory risk and discretion in establishing prices. By contrast, the default risk is no longer relevant. The list of indicators to determine whether or not the company has control is not exhaustive. It merely provides examples and does not claim to be a complete list. The indicators/information provided in the standard may be more or less relevant depending on the type of goods and services and on the terms of the contract. In order to assess control, it is therefore possible that different indicators/information will be used for different contracts. The amendments clarify that the indicators must be weighted depending on the specific matter at hand.

### Clarification on the accounting for license agreements

The last significant amendment relates to revenue recognition (step 5). If a company grants a (commercial) right of use to a customer for intellectual property (license), the company must determine whether the license is granted over time or at a point in time. The standard lists criteria that have to be fulfilled in this case in order to allow for revenue recognition over time. One of the criteria is met if the contract requires that the company will undertake activities that significantly affect the intellectual property underlying the license. The IASB has made an amendment here to specify the

necessary prerequisites. Accordingly, the standard setter considers the intellectual property to be significantly affected if:

- the company's activities significantly change the form or the functionality of the intellectual property, or
- the ability of the customer to obtain benefit from the intellectual property (e.g. of a brand) is substantially derived from, or dependent upon, the company's activities.

The IASB identifies types of intellectual property that has stand-alone functionality. For example, according to the IASB this includes licenses to software and to biological compounds as well as films, TV shows and music recordings. These types of intellectual property obtain a material value from their stand-alone functionality. Consequently, the customer's ability to benefit from the intellectual property is not impacted unless the company's activities change the form and/or functionality of the intellectual property.

In addition, the standard setter publishes a clarification in connection with the exception for sales-based or usage-based royalties. The exception takes effect if the prerequisites in paragraphs 56 to 59 in IFRS 15 are not met (IFRS 15.B63 to B63B). Accordingly, the exception for sales-based or usage-based royalties applies to the entire license payments if the license is the predominant item of the agreement for the intellectual property.

### Transition rules

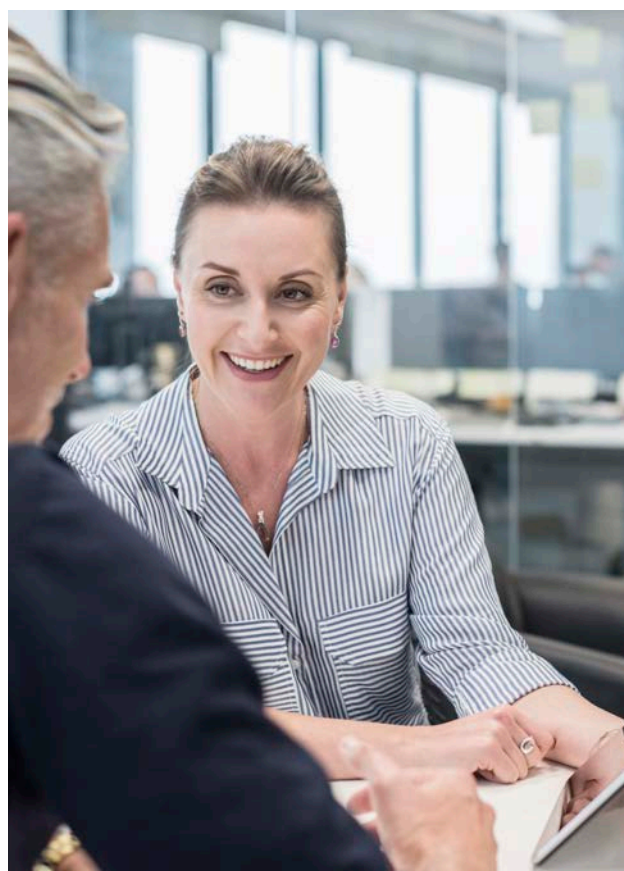
Last but not least, the IASB provided transition rules. Their main aim is to simplify application of IFRS 15 for companies in practise. The original rules in IFRS 15 already provided for two transition methods. Using the retrospective method, IFRS 15 is applied in full to earlier reporting periods (with certain limited practical expedients). Overall, this leads to a presentation that is the same as if IFRS 15 were always used. Alternatively, companies can use the cumulative method. Using that method, the amounts reported based on the previously applicable standards are retained in the comparative period and the cumulative effects from the adoption of IFRS 15 are recognised as an adjustment of the opening balance of equity on the date of initial application (beginning of the current reporting period).

With the final amendment to IFRS 15, the IASB introduced further expedients with regard to the transition to IFRS 15:

1. Companies that decide to use the full retrospective

approach must apply IFRS 15 only to contracts that were still uncompleted at the beginning of the earliest period presented. A contract is deemed uncompleted if the company has not yet transferred all goods and/or services in full in accordance with IAS 11 and/or IAS 18.

2. Contractual modifications made before the beginning of the earliest period presented do not have to be restated retrospectively. Instead, the aggregate effect of all modifications made before the earliest period presented is shown.



**Note:** Although the date of first-time application for EU users was postponed to 1 January 2018, it is nevertheless advisable to start analysing the effects immediately while taking the amendment already published by the IASB into consideration. Not only can the application of IFRS 15 have far-reaching effects on the amount and timing of revenue, it will also often necessitate extensive system and process adjustments. Companies that do not expect any material accounting consequences from the application of IFRS 15 must nevertheless take into account the fact that all companies are affected by the considerably extended requirements for the notes, some of which are complex to assess.



## IASB publishes amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The IASB issued amendments to IAS 12 "Income Taxes" on 19 January 2016. The amendments serve to clarify various questions concerning the recognition of deferred tax assets.

One of those questions related to the recognition of deferred tax assets for unrealised losses on (available-for-sale) debt instruments measured at fair value. The amendments to IAS 12 clarify that an unrealised loss from such a debt instrument leads to a deductible temporary difference if the tax base of the debt instrument is its cost. This applies regardless of whether the holder expects to hold the instrument to maturity in order to recover the nominal value or to sell the instrument. The standard includes the following example to illustrate this amendment (see IAS 12.26(d))

Company A purchases a debt instrument at the beginning of Year 01 subject to the following terms:

- Cost (= nominal value) 1 January Year 01: Cash Units (CU) 1,000
- Term of five years (until 31 December Year 05), repayment amount: CU 1,000
- Annual interest of 2% paid out yearly
- The debt instrument is allocated to the available-for-sale category, i.e. it is measured at fair value.
- Fair value as of 31 December Year 02: CU 918 (due to an increase in the market interest rate to 5%)
- It is probable that company A will collect all future interest payments.
- Any gains and losses on the debt instrument are taxable (deductible) only when realised; the tax base of the debt instrument is its original cost.

The difference between the IFRS carrying amount of CU 918 and its tax base of CU 1,000 gives rise to a temporary difference of CU - 82 as of 31 December Year 02 even though it reverses when the instrument is held to maturity because the debt instrument is repaid at nominal value. The temporary differences result from unrealised losses. This also applies if company A does in fact expect to hold the debt instrument to maturity.

The accounting for deferred tax assets in IAS 12 also contains clarification on the determination and recognition of deferred tax assets.

- In general, a company must assess for all temporary differences as a whole whether it is probable that sufficient taxable profits will be available against which

the deductible temporary differences can be utilised and thus recognised. However, this is only the case if the applicable tax law does not restrict the offsetting of tax losses. If tax law distinguishes between the different types of taxable profits, a separate assessment of whether a deferred tax asset should be recognised must be performed for each part of the taxable profit.

- Under the newly introduced IAS 12.29A, a company can assume when estimating future taxable profit that an asset can be realised at above its carrying amount, provided that such realisation is probable.
- The taxable profit against which a company examines the recognition of a deferred tax asset is the taxable income before reversal of deductible temporary differences (see IAS 12.29 (a) (i)), as otherwise items would be recorded twice.

The third point especially should be illustrated using the following example:

### Example

**Company A purchases a debt instrument at the beginning of Year 01 subject to the following terms:**

- Cost (= nominal value) 1 January Year 01: Cash Units (CU) 1,000
- Term of two years (until 31 December Year 02), repayment amount: CU 1,000
- Fair value as of 31 December Year 01: CU 918
- Tax base as of 31 December Year 01: CU 1,000
- It is probable that company A will collect all future interest payments.
- Any gains and losses on the debt instrument are taxable (deductible) only when realised; the tax base of the debt instrument is its original cost (tax rate = 30%).

The difference between the IFRS carrying amount of CU 918 and its tax base of CU 1,000 gives rise to a temporary difference of CU - 82 as of 31 December Year 01. Company A plans to hold the instrument to maturity and collect the nominal amount. The temporary difference will thus reverse in full in Year 02. It is also probable that company A will have further temporary differences of CU 30 that will lead to deferred tax liabilities and also reverse in Year 02. Company A expects negative taxable income of CU 10 for Year 02.

**Can company A recognise a deferred tax asset as of 31 December Year 01?**

**Step 1:** The taxable temporary difference from other matters amounts to CU 30. It is assumed that a corresponding offsetting is permissible under tax law. This means that deferred tax assets of CU 9 (CU 30 x 30%) can initially be recognised at the amount of the deferred tax liabilities (see IAS 12.28).

**Step 2:** Whether or not the remainder of the deductible differences of CU 52 (CU 82 - CU 30) can be recognised is examined taking into account the taxable result of future periods. According to IAS 12.29 (a) (i), the expected negative taxable income is adjusted to exclude the reversal effects of the taxable and of the deductible temporary differences.

	CU
Expected taxable income	-10
- Reversal of taxable differences	-30
+ Reversal of deductible temporary differences	+82
= taxable income before taking into account the reversal of temporary differences	<u>42</u>

**Step 3:** Step 1 and Step 2 give rise to deferred tax assets of CU 21.6 ((CU 30 + CU 42) x 30%). These are countered by deferred tax liabilities of CU 9.

**Notes:** The amendments are applicable retrospectively to annual periods commencing on or after 1 January 2017. Early adoption is permissible, but is subject to EU endorsement for companies preparing financial statements in the EU. The individual components of equity in the opening statement of financial position of the earliest period presented that are affected by the amendment do not need to be restated on initial application. Instead, the entire change can be recognised in profit/loss carried forward. However, this approach requires a corresponding disclosure in the notes.

# EU Endorsement

## EU Endorsement Status Report

The following table contains standards and interpretations that have not yet been adopted by the EU and those that have been adopted since the last edition of IFRS link. These are based on the EU Endorsement Status Report issued by EFRAG on 6 June 2016.

Standards	IASB entry into force	EU endorsement expected
IFRS 9 Financial Instruments (24 July 2014)	1 January 2018	Q4/2016
IFRS 14 Regulatory Deferral Accounts (30 January 2014)	1 January 2016	No endorsement
IFRS 15 Revenue from Contracts with Customers (28 May 2014)	1 January 2018	Q3/2016
Leases (13 January 2016)	1 January 2019	2017

Amendments to standards		
IFRS 10, IFRS 12 and IAS 28: Investment Entities - Applying the Consolidation Exception (18 December 2014)	1 January 2016	Q3/2016
IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (11 September 2014)	Postponed indefinitely	Postponed
IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (19 January 2016)	1 January 2017	Q4/2016
IAS 7: Disclosure Initiative	1 January 2017	Q4/2016
IFRS 15: Clarifications	1 January 2018	Q4/2017



## Contact us

1200 - 609 Granville Street,  
PO Box 10372, Pacific Centre  
Vancouver, B.C. Canada V7Y 1G6

Tel: (604) 687-0947

[Davidson-Co.com](http://Davidson-Co.com)

Nexia International is a leading worldwide network of independent accounting and consulting firms, providing a comprehensive portfolio of audit, accountancy, tax and advisory services.

Nexia International does not deliver services in its own name or otherwise. Nexia International and its member firms are not part of a worldwide partnership. Nexia International does not accept any responsibility for the commission of any act, or omission to act by, or the liabilities of, any of its members. Each member firm within Nexia International is a separate legal entity.

Nexia International does not accept liability for any loss arising from any action taken, or omission, on the basis of the content in this publication. Professional advice should be obtained before acting or refraining from acting on the contents of this publication.

Any and all intellectual property rights subsisting in this document are, and shall continue to be, owned by (or licensed to) Nexia International Limited.

References to Nexia or Nexia International are to Nexia International Limited.