

## Accounting Roundup

# IFRS 16 *Leases* published, IPO considerations, frequently arising accounting issues, and key updates including the Tax Laws Amendment Bill 2015 and IFRS 15 *Revenue from Contracts with Customers*

April 2016 edition

Welcome to Deloitte's Accounting Roundup. This publication is intended to give readers a high-level briefing on some of the key changes and debates that have happened or are currently occurring that will impact accountants and financial reporting. For a complete collection of recent accounting news, please refer to our news feed at [IASPlus](#). If you have any further queries about issues discussed below, we encourage you to reach out to your Deloitte contact or you can contact the Accounting Technical team through our website [here](#).

### IFRS 16 *Leases* published

The International Accounting Standards Board (IASB) have finally released IFRS 16 *Leases*, the new accounting standard on accounting for leases. This new standard supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives*, and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Leases*, and will be effective for annual reporting periods beginning on or after 1 January 2019. Early application is permitted only where the entity has also adopted IFRS 15 *Revenue from Contracts with Customers*.

The Australian Accounting Standards Board (AASB) has not yet issued the Australian equivalent of the new standard but it is expected that this will be done without modification.

The new standard contains more guidance on identifying whether a contract contains a lease, an on-balance sheet approach for all lessees, with some exceptions, and a greater onus on disclosures. The impacts of the new standard can be significant for entities that primarily hire the majority of their property, plant and equipment or infrastructure, such as retail space. The impact may extend beyond financial reporting implications to areas such as gearing, systems and internal controls and the drafting of contracts. There is limited direct accounting and reporting impact for lessors arising from the new standard.

We have issued an Accounting Alert on this new standard which can be found on our website [here](#).

### Issues to consider on IPO

In the last 12 months, we have observed a significant increase in the number of entities that are going through an IPO. An IPO can be a complicated experience and from an accounting perspective there are a number of complex issues that an entity should work through to ensure a smooth and efficient process. As a result of reviews that we have undertaken in the past 12 months, we have published an Accounting Alert on key considerations that an entity should make from an accounting point of view, which can be found [here](#). If you are thinking of entering into an IPO in the next 12 months, we strongly encourage you to not only read this publication but also to work closely with your auditors throughout the process and leverage their knowledge.

### Frequently arising accounting issues

**For the following issues, we encourage you to read our iGAAP 2016 book which sets out the recommended accounting treatment. An electronic version, which can be accessed and downloaded onto your mobile devices such as a mobile phone or tablet, can be obtained from your Deloitte contact.**

**Impairment:** Broadly speaking the number one issue in the current accounting environment continues to be recognition and measurement of impairment, particularly amongst mining companies due to the downturn in commodities pricing. We are observing an increasing number of large impairment write-downs coming out of the December 2015 reporting period and expect more to occur in June. The requirements of AASB 136 (IAS 36) and AASB 13 (IFRS 13) can be challenging. We note that acknowledging the complexity in the current goodwill impairment testing model the IASB has on its research project plan a project for goodwill impairment, arising from issues identified in its Post-Implementation Review of IFRS 3 *Business Combinations*. The project page can be found [here](#).

**Foreign currency gains and losses:** Due to a general devaluation of the Australian dollar against certain currencies over the last 12 months, we continue to see issues in the treatment of foreign currency gains and losses in entities, particularly in the translation of foreign operations. Key amongst this is the capitalisation of exchange losses, which is permitted in certain prescribed and narrow circumstances under AASB 123 (IAS 23), however practical application of this guidance can be complex in practice. If you are an entity with a subsidiary operating in a country with a volatile currency, we recommend care be applied in determining the treatment of foreign currency gains and losses.

#### **Uncertain tax positions**

In October 2015, the IFRS Interpretations Committee (IFRIC) published for public comment a proposed Interpretation of Standards, designed to address existing diversity in how IAS 12 Income Taxes is applied for uncertainty regarding a tax treatment and how that uncertainty is reflected in the accounting for income tax. We are expecting a final interpretation to be issued by IFRIC shortly.

IFRIC's project page on this matter can be found [here](#).

#### **Update for the Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill 2015:**

The Australian Taxation Office (ATO) has announced that it has started a consultation process with external stakeholders on matters including the ATO's interpretation of key concepts such as what are general purpose financial statements. A discussion paper is expected in April 2016. We welcome further guidance on the implementation of the amendments as we had identified several issues in their application as discussed in our Accounting Alert issued after the amendments were passed, which can be found on our website [here](#). The ATO's consultation brief can be found [here](#).

#### **Update for AASB (IFRS) 15 Revenue from Contracts with Customers**

The International Accounting Standards Board (IASB) is expected to release certain clarifications to IFRS 15 imminently after a heavily debated consultation process. As noted previously, the IASB's exposure draft contains less content than the United States Financial Accounting Standards Board's (FASB) proposed equivalent clarifications. The FASB have already issued update 2016-08, which contains guidance on principal versus agent considerations.

Going forward, the Transition Resource Group (TRG) on revenue will continue to gather for periodic discussions although the IASB will not be active participants in these meetings from 2016 onwards. We continue to strongly encourage convergence between the IASB and the FASB. TRG meeting dates and agenda items can be found [here](#).

#### **Update for the definition of a 'business'**

The IASB's work plan indicates that an Exposure Draft is expected in the three months ending June 2016. Currently it can be a complex and highly judgemental assessment to determine whether a business combination or an asset acquisition has occurred and we welcome clarifying guidance in this area.

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