



# TECHNICAL BULLETIN

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## EDITORIAL NOTE

This edition of the Technical Bulletin focuses on IFRIC updates and agenda decisions issued on a quarterly basis. The implementation of IFRIC agenda decisions strengthens the quality of IFRS financial statements issued in Nigeria.

The Institute expects that its members would familiarise themselves with these updates as they prepare financial statements in line with the IFRS. We have provided briefs on the various updates as well as their possible impacts on the financial statements.

## 2019 IFRIC Updates: What is your Implementation Plan?



## INTRODUCTION

IFRIC updates and agenda decisions are issued on a quarterly basis. The implementation of IFRIC agenda decisions strengthens the quality of IFRS financial statements issued in Nigeria.

Significant level of awareness has been raised on new IFRS standards that are effective 1 January 2019 (such as IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments); however, there is danger that sufficient attention has not been paid to the 2019 IFRIC updates.

Preparers of IFRS financial statements in Nigeria should pay urgent attention to the respective IFRIC updates issued on a periodic basis by IFRIC.



## Impact of Agenda Decisions

When an entity is impacted by an agenda decision, the expectation is that an entity will:

- implement the resulting changes in a timely manner;
- account for the resulting changes as a change in accounting policy in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- consider disclosures similar to those in IAS 8 if the accounting policy change resulting from an agenda decision has not been applied in financial statements issued after the publication of an agenda decision; and
- consider requirements or expectations of local regulators on the timing of implementation of agenda decisions.

Based on the above, entities should evaluate if the agenda decisions impact on their 2019 interim and year-end financial statements.

## Summary of key issues and impacts of IFRIC 2019 updates issued from January - September 2019

Agenda	Key Issues	Possible Impact on Financial Statements
<b>January 2019 Updates</b>		
Deposits relating to taxes other than income tax (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)—Agenda Paper 2	Recognition, measurement and disclosure of tax deposits	<ul style="list-style-type: none"> <li>• Changes to the accounting policy</li> <li>• Recognition of an asset on the balance sheet</li> </ul>
Assessment of promised goods or services (IFRS 15 Revenue from Contracts with Customers)—Agenda Paper 3	Recognition of separate performance obligations	Timing and amount of revenue recognition in the profit or loss
Investment in a subsidiary accounted for at cost: Partial disposal (IAS 27 Separate Financial Statements)—Agenda Paper 4A	<p>Partial derecognition of investment in subsidiary measured at cost</p> <p>Recognition of the profit or loss on partial disposal and subsequent measurement of the retained interest</p>	<p>Changes to the accounting policy</p> <p>Measurement and presentation of profit or loss on disposal</p> <p>Classification of the residual investment.</p>
Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 Separate Financial Statements)—Agenda Paper 4B	<p>Application of fair value as deemed cost approach or accumulated cost approach in the definition of cost of an investment in subsidiary</p> <p>Recognition of the impact of a step acquisition</p>	<p>Changes to the accounting policy</p> <p>Recognition in profit or loss impact of step acquisition if accumulated cost approach is applied</p>

March 2019 updates		
Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument (IFRS 9 Financial Instruments and IAS 39 Financial instruments: Recognition and Measurement)—Agenda Paper 10	Application of the highly probable requirement in the application of hedge accounting	Impact on the use of hedge accounting
Physical Settlement of Contracts to Buy or Sell a Non-financial Item (IFRS 9 Financial Instruments) —Agenda Paper 11	Recognition and measurement of a derivative contract is not changed because the derivative contract is ultimately physically settled	Changes to accounting policy  Possible impact in profit or loss if derivative contracts are not measured at fair value through profit or loss
Credit Enhancement in the Measurement of Expected Credit Losses (IFRS 9 Financial Instruments) —Agenda Paper 12	Cash flows expected from a credit enhancement are included in the measurement of expected credit losses if the credit enhancement is both: part of the contractual terms; and not recognised separately by the entity.	Changes to accounting policy  Impact on expected credit loss for entities that have included cash flows from credit enhancements recognised separately by IFRS standards
Curing of a Credit-impaired Financial Asset (IFRS 9 Financial Instruments)—Agenda Paper 13	Presentation in profit or loss when a credit – impaired financial asset is cured.	Changes to the accounting policy  Presentation of the impact of the cure of a credit - impaired financial asset as reversal of impairment losses instead of revenue.
Sale of Output by a Joint Operator (IFRS 11 Joint Arrangements) — Agenda Paper 8	Recognition of revenue from a joint operations should be in accordance with output sold to customers in terms of IFRS 15 and not output which the joint operator is entitled to	Update to accounting policy on joint operations  Impact on amount of revenue recognition by a joint operator
Liabilities in relation to a Joint Operator’s Interest in a Joint Operation (IFRS 11 Joint Arrangements) —Agenda Paper 9	Accounting implications of liabilities arising from contracts entered by a joint operator with third parties as sole signatory for assets that will be operated as part of the joint operating activities.	A joint operator recognizes liabilities for which it has primary responsibility.



Over Time Transfer of Constructed Good (IAS 23 Borrowing Costs)—Agenda Paper 3	Capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development (building). Where the qualifying asset might be a receivable, contract asset and/or inventory	Change to accounting policy  Recognition of borrowing cost on receivables, contract assets and inventory ready for sale in its current condition is not allowed.
Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud (IAS 38 Intangible Assets)—Agenda Paper 7	Accounting treatment for "Software as a Service" cloud computing arrangement based on the right to receive access to the supplier's software in exchange for a fee on a need basis.	Update to accounting policy  Impact on the statement of financial position and profit or loss if the "Software as a service" does not meet the definition of a lease or intangible asset and therefore accounted for as a service contract.
<b>June 2019 updates</b>		
Holdings of Cryptocurrencies—Agenda Paper 12	Accounting treatment of holding of cryptocurrencies	Update to accounting policy  Impact on profit or loss and statement of financial position as crypto currencies either fall under the scope of IAS 38 Intangible assets or IAS 2 inventories and not as cash.
Costs to Fulfil a Contract (IFRS 15 Revenue from Contracts with Customers)—Agenda Paper 10	Recognition of a subsurface rights when the counterparty retains the right to use the surface of the land	Update to accounting policy  Impact on profit or loss and balance sheet cost related to partially satisfied performance obligation in the contract are expensed.
Subsurface Rights (IFRS 16 Leases)—Agenda Paper 11	Recognition of revenue from a joint operations should be in accordance with output sold to customers in terms of IFRS 15 and not output which the joint operator is entitled to	Change to accounting policy  Impact on the financial statements as subsurface rights could meet the definition of a lease in terms of IFRS 16
Effect of a Potential Discount on Plan Classification (IAS 19 Employee Benefits)—Agenda Paper 13	Potential effect of receiving a discount transfer actuarial and investment risk on a post-employment benefit plan recognised as defined contribution	Change to accounting policy  Impact on financial statements as the existence of a right to a potential discount would not in itself result in classifying a post-employment benefit plan as a defined benefit plan

September 2019 updates		
<p>Compensation for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers)—Agenda Paper 5</p>	<p>Accounting treatment for an airline obligations to compensate customers for delayed or cancelled flights where legislation gives a passenger the right to be compensated and fixes the amount of compensation</p>	<p>Impact on accounting policy</p> <p>Impact on revenue recognition Compensation for delays and cancellation is a variable consideration in terms of IFRS 15 and should be accounted for under IAS 37 as it is compensation for harm or damage</p>
<p>• Lessee’s Incremental Borrowing Rate (IFRS 16 Leases)—Agenda Paper 8</p>	<p>Clarification on whether a lessee’s incremental borrowing rate is required to reflect the interest rate in a loan with both a similar maturity to the lease and a similar payment profile to the lease payments</p> <p>When developing the definition of an incremental borrowing rate (IBR) for a lessee readily observable rate for a loan with a similar payment profile to that of the lease can be used as a starting point and the following factors are considered in arriving at the IBR such as a rate that reflects:</p> <ul style="list-style-type: none"> <li>- similar term to the lease term;</li> <li>- similar security to the security (collateral) in the lease;</li> <li>- the amount needed to obtain an asset of a similar value to the right-of-use asset arising from the lease; and</li> <li>- in a similar economic environment to that of the lease</li> </ul>	<p>Impact on accounting policy</p> <p>Impact on the financial statement and recognition of a lease liability</p>
<p>• Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets (IFRS 9 Financial Instruments)—Agenda Paper 9</p>	<p>Clarification on whether foreign currency risk can be a separately identifiable and reliably measurable risk component of a non-financial asset held for consumption that an entity can designate as the hedged item in a fair value hedge accounting relationship.</p>	<p>Update to accounting policy</p> <p>Impact on use of hedge accounting as it is possible for an entity to have exposure to foreign currency risk on a non-financial asset held for consumption that could affect profit or loss.</p>



<ul style="list-style-type: none"> <li>• Presentation of Liabilities or Assets Related to Uncertain Tax Treatments (IAS 1 Presentation of Financial Statements)—Agenda Paper 10</li> </ul>	<p>Presentation of liabilities or assets related to uncertain tax treatments recognised applying IFRIC 23 Uncertainty over Income Tax Treatments (uncertain tax liabilities or assets)</p>	<p>Update to accounting policy</p> <p>Presentation impact on the financial statements as uncertain tax assets or liabilities are presented as part of current and deferred tax assets and liabilities respectively.</p>
<ul style="list-style-type: none"> <li>• Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 Statement of Cash Flows) —Agenda Paper 7</li> </ul>	<p>Adequacy of disclosure requirements in IAS 7 that relate to changes in liabilities arising from financing activities.</p>	<p>Impact on disclosure requirement for liabilities arising from financing activities</p>
<ul style="list-style-type: none"> <li>• Subsequent Expenditure on Biological Assets (IAS 41 Agriculture) —Agenda Paper 6</li> </ul>	<p>Clarification on whether an entity capitalizes subsequent expenditure (ie adds it to the carrying amount of the asset) or, instead, recognises subsequent expenditure as an expense when incurred.</p>	<p>Update to accounting policy</p> <p>Impact on financial statements accounting - an entity either capitalises subsequent expenditure or recognises it as an expense when incurred. The Committee observed that capitalising subsequent expenditure or recognising it as an expense has no effect on the fair value measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss.</p>



## Tentative agenda decisions

IFRIC also issued tentative agenda decisions on the following items with far reaching consequences:

- Training Costs to Fulfil a Contract (IFRS 15 Revenue from Contracts with Customers)—Agenda Paper 2
- Definition of a Lease—Shipping Contract (IFRS 16 Leases)—Agenda Paper 3
- Translating a Hyperinflationary Foreign Operation—Presenting Exchange Differences (IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 29 Financial Reporting in Hyperinflationary Economies)—Agenda Paper 4A
- Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)—Agenda Paper 4B
- Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary (IAS 21 and IAS 29)—Agenda Paper 4C
- Lease Term and Useful Life of Leasehold Improvements (IFRS 16 Leases and IAS 16 Property, Plant and Equipment)—Agenda Paper 3

The above tentative agenda decisions have been opened for comments and the Committee will reconsider its tentative decisions, including the reasons for not adding the matters to its standard-setting agenda, at a future meeting. It is however advisable that all companies evaluate the impact of the agenda decisions as they make preparation for 2019 year-end financial reporting.

