Financial Reporting News

US GAAP Update

The Financial Accounting Standards Board (FASB) is the standard setter for US GAAP. They have recently issued a number of accounting standards updates as follows:

Accounting Standards Update No. No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606.

Accounting Standards Update No. 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities.

Accounting Standards Update No. 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes.

Accounting Standards Update No. 2018-11, Leases (Topic 842): Targeted Improvements and Accounting Standards Update No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts and a video on the benefits of hedge accounting.

The FASB also released an educational staff paper that provides implementation examples to help private company franchisors preparing to implement the revenue recognition standard in 2019.

To learn more on any of the above log onto www.fasb.org to read high-level plain-language descriptions of the changes and what they mean for financial reporting.

Source: www.fasb.org

IASB Amends Definition of Business

The International Accounting Standards Board (Board) has issued narrow-scope amendments to IFRS 3 Business Combinations to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

The amendments arose from a post-implementation review (PIR) of IFRS 3, an assessment carried out to determine whether an IFRS Standard works as intended. Following feedback from the PIR, the Board is also working on another project linked to IFRS 3 in which it is exploring possible improvements to the accounting for goodwill.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after 1 January 2020. Earlier application is permitted.

Source: www.ifrs.org

IASB consults on the accounting for financial instruments with characteristics of equity

The International Accounting Standards Board (Board) has published for public comment a Discussion Paper on how companies issuing financial instruments should classify them in their financial statements.

IAS 32 Financial Instruments: Presentation currently sets out how a company that issues financial instruments should distinguish financial liabilities from equity instruments. That distinction is important because the classification of the instruments affects how a company's financial position and performance are depicted.

IAS 32 works well for most financial instruments. However, continuing financial innovation means that some companies find it challenging to classify some complex financial instruments that combine some features of both debt—liabilities—and ordinary shares—equity instruments.

Challenges in classifying these instruments can result in diverse accounting in practice, which in turn makes it difficult for investors to assess and compare companies' financial position and performance. In addition, investors have been calling for better information, particularly about equity instruments.The Board has responded to feedback from investors and others and has considered previous work on the topic to propose an approach that would:

- provide a clear rationale for why a financial instrument would be classified as either a liability or equity without fundamentally changing the existing classification outcomes of IAS 32; and
- enhance the information provided through presentation and disclosure.

This approach would provide investors with richer and more comparable information about financial instruments issued by companies. Clearer principles will help companies accounting for financial instruments they issue both now and as financial instruments continue to evolve.

The Discussion Paper Financial Instruments with Characteristics of Equity is open for comments until 7 January 2019.

Source: www.ifrs.org