International Accounting (22E00400)

20.4-03.6.2021

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Course schedule

Date		Time	Topics	Standards	
20.4.2021	Tuesday	17.15-20.00	Welcome!	Conceptual Framework	
			Introduction to IFRS	IAS 1 - Presentation of financial statements	
			Conceptual Framework	IFRS 13 - Fair value measurement	
			Fair value measurement	IFRS 8 - Operating segments	
			Operating segments		
22.4.2021	Thursday	17.15-20.00	Revenue and Leases	IFRS 15 - Revenue from Contracts with Customers	
				IFRS 16 - Leases	
27.4.2021	Tuesday	17.15-20.00	Assets	IAS 38 - Intangible assets	
				IAS 36 - Impairtment of assets	
				IFRS 5 - Discontinued operations	
4.5.2021	Tuesday	17.15-20.00	Liabilities	IAS 37 - Provisions, contingent liabilities and contingent assets	
				IAS 19 - Employee benefits	
				IFRS 2 - Share based payments	
11.5.2021	Tuesday	17.15-20.00	Business combinations, Associates and Joint Arrangements	IFRS 3 - Business Combinations	
				IFRS 10 - Consolidated financial statements	
				IAS 12 - Income taxes	
				IFRS 9 - Financial instruments	
18.5.2021	Tuesday	17.15-20.00	Financial instruments and income taxes	IAS 7 - Statement of Cash Flows	*Attendance is mandatory*
			Cash flow statement	IAS 28 - Investments in associates and joint ventures	*Guest speaker from PWC*
			Exam preparation	IFRS 11 - Joint arrgangements	*Guest speaker from EY*
20.5.2021	Thursday	17.15-20.00	Term Paper presentations & discussion		*Attendance is mandatory*
25.5.2021	Tuesday	17.15-20.00	Term Paper presentations & discussion		*Attendance is mandatory*
3.6.2021	Thursday	09.00-10.30	Exam 1		

Term papers
Presentations &
Discussions

Term Paper
DEADLINE 13.5 AT NOON (12:00)

1. Describe **how the companies have interpreted the IFRS/IAS standard you have chosen**
2. **Conduct a comparison versus requirements of the standard.**
3. **Conduct a cross-comparison among the companies you have chosen.** Describe pros and cons in how the companies have implemented the standard. Describe in specific how the companies have interpreted the main concepts and which type of information they have included in their main financial statements and related notes.
4. **Come up with three research topics for master's thesis** which are related to the main concepts of the chosen standard as well as the particular line of industry. Remember to check the prior literature.

- The main purpose (also an assessment criteria) of the term paper is that the other students would learn as much as possible from the standard based on the term paper as well as presentation. You should be able to answer the following questions:
  - What is the standard about?
  - How are the companies applying the standard?
  - What are the differences how companies have applied it, any pros or cons?
  - What research topics could be linked to the standard based on prior research?
- High quality term paper clearly describes the main purpose and content of the standard and how it shall be applied in terms of practice. Additionally, high quality term paper clearly describes relevant research topics.

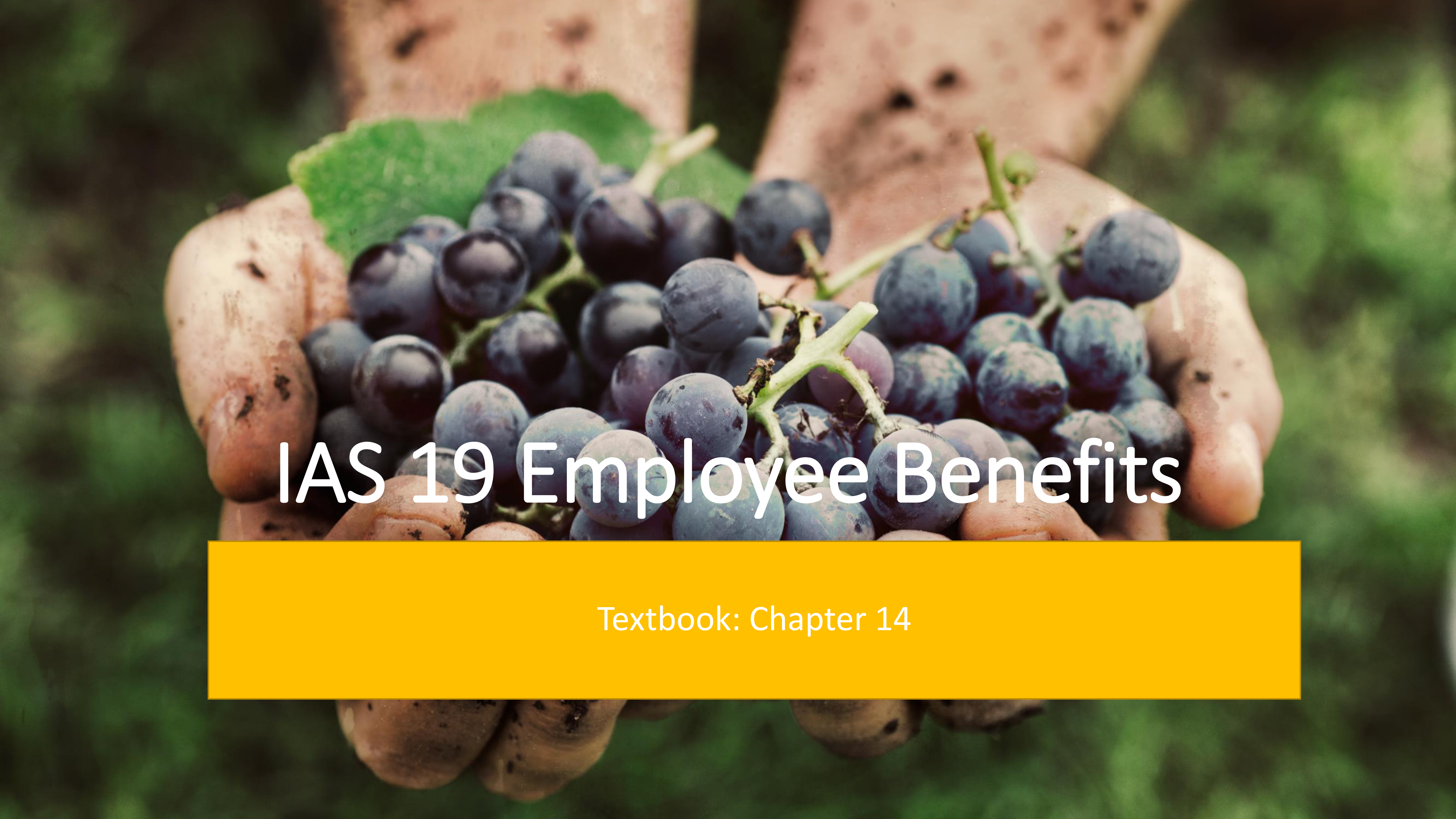
Presentations and discussions
Attendance is mandatory!

Length of the presentation: 15- 20 minutes

Length of the feedback: 10 minutes

- Understanding and discussing the standard
- Choice of companies
- Discussion and presentation of results
- Ability to make comparison and draw own conclusions
- Quality of references & next steps (i.e. research topics)
- Language and consistency
- Ability to answer questions?

Presentations & discussions are part of overall grading!



IAS 19 Employee Benefits

Textbook: Chapter 14

Learning objectives

- Categories of employee benefits
- Short-term employee benefits
- Post-employment benefits
  - Accounting for defined contribution pension plans
  - Accounting for defined benefit pension plans
  - Discolosures relating to defined benefit plans
- Other long-term employee benefits
- Termination benefits

Why IAS 19?

The main objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits.

IAS 19 requires and entity to recognize:

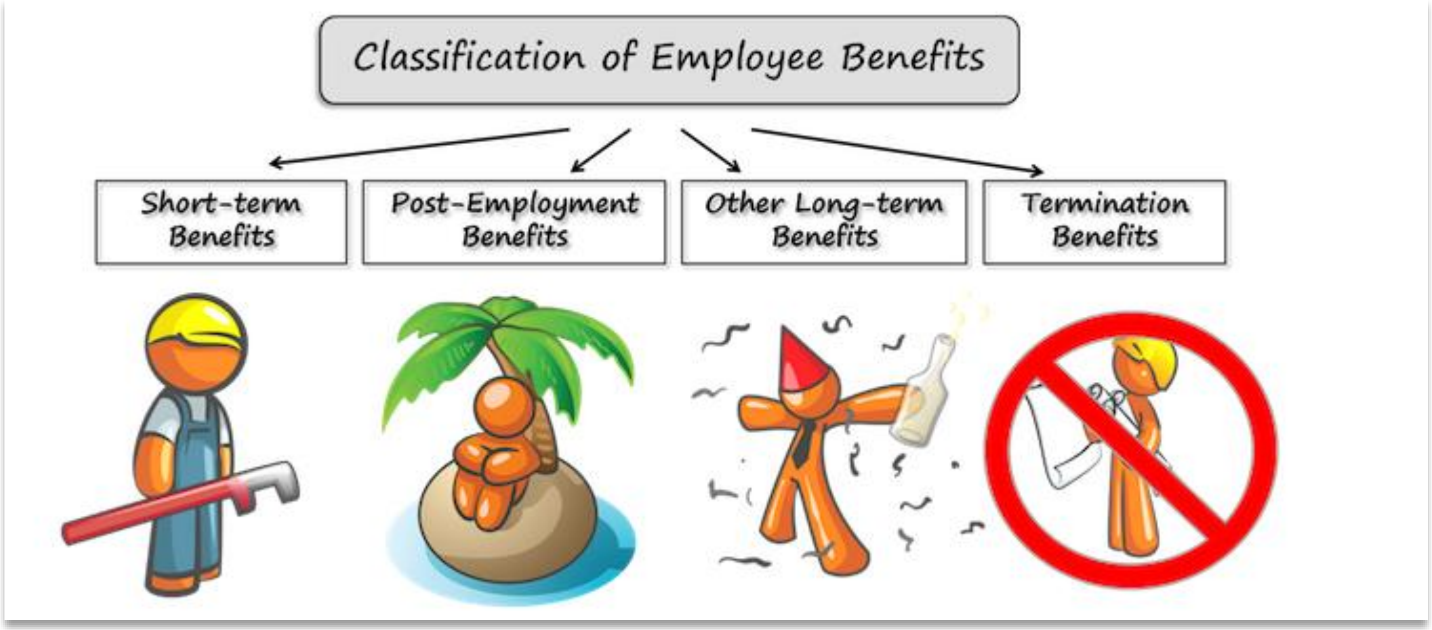
a liability

- when an employee has provided service in exchange for employee benefits to be paid in the future; and

an expense

- when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

IAS 19 classifies employee benefits into 4 main categories



Short-term employee benefits

Wages, salaries and social security contributions;

Paid annual leave and paid sick leave;

Profit-sharing and bonuses; and

Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods for current employees).

How to account for short-term benefits?

Accounting for short-term benefits

Recognition of an expense equal to the amount of the short-term employee benefits due in exchange for those services

And a liability (accrued expense) equal to any part of this expense that has not been paid by the end of the period

EXAMPLE 1

A company has 1,000 employees, each of whom is entitled to ten days of paid sick leave in each calendar year. Unused sick leave at the end of each year may be carried forward for up to one further calendar year. Sick leave is taken first out of the current year's ten-day entitlement and then out of any unused entitlement brought forward.

At 31 December 2017, the average unused entitlement is six days per employee. Based on past experience, the company expects that 85% of employees will take no more than ten days sick leave in the forthcoming year but that the remaining 15% of employees will each take an average of twelve days.

Assuming an average cost to the company of £120 per day of paid sick leave, calculate the liability which should appear in the company's statement of financial position at 31 December 2017 in relation to paid sick leave.

Short-term paid absences (page 222)

Solution

850 employees are not expected to make use of their unused entitlement and therefore the amount expected to be paid in relation to these employees is £nil. The remaining 150 employees are each expected to use two days of their unused entitlement. Therefore the liability which should appear in the company's statement of financial position as at 31 December 2017 is £36,000 (150 x 2 x £120).

Short-term paid absences (page 222)

Post-employment benefits

Defined contribution plans

Defined benefit plans

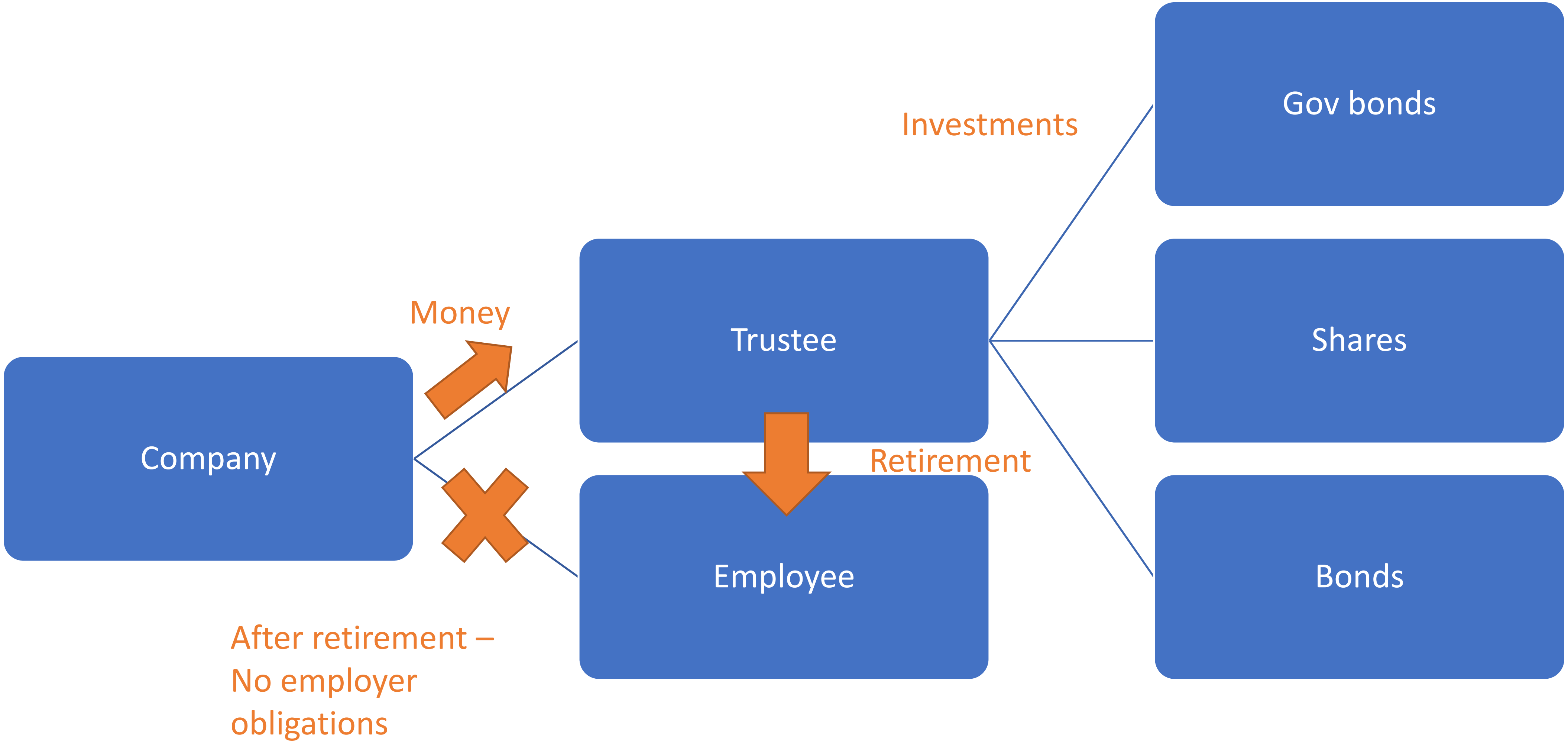
Accounting for defined contribution plans

- Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and *will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.*

- Accounting treatment is similar to the short-term benefits, i.e. very straightforward

Post employment contribution

Defined contribution plan



Accounting for defined benefit plans

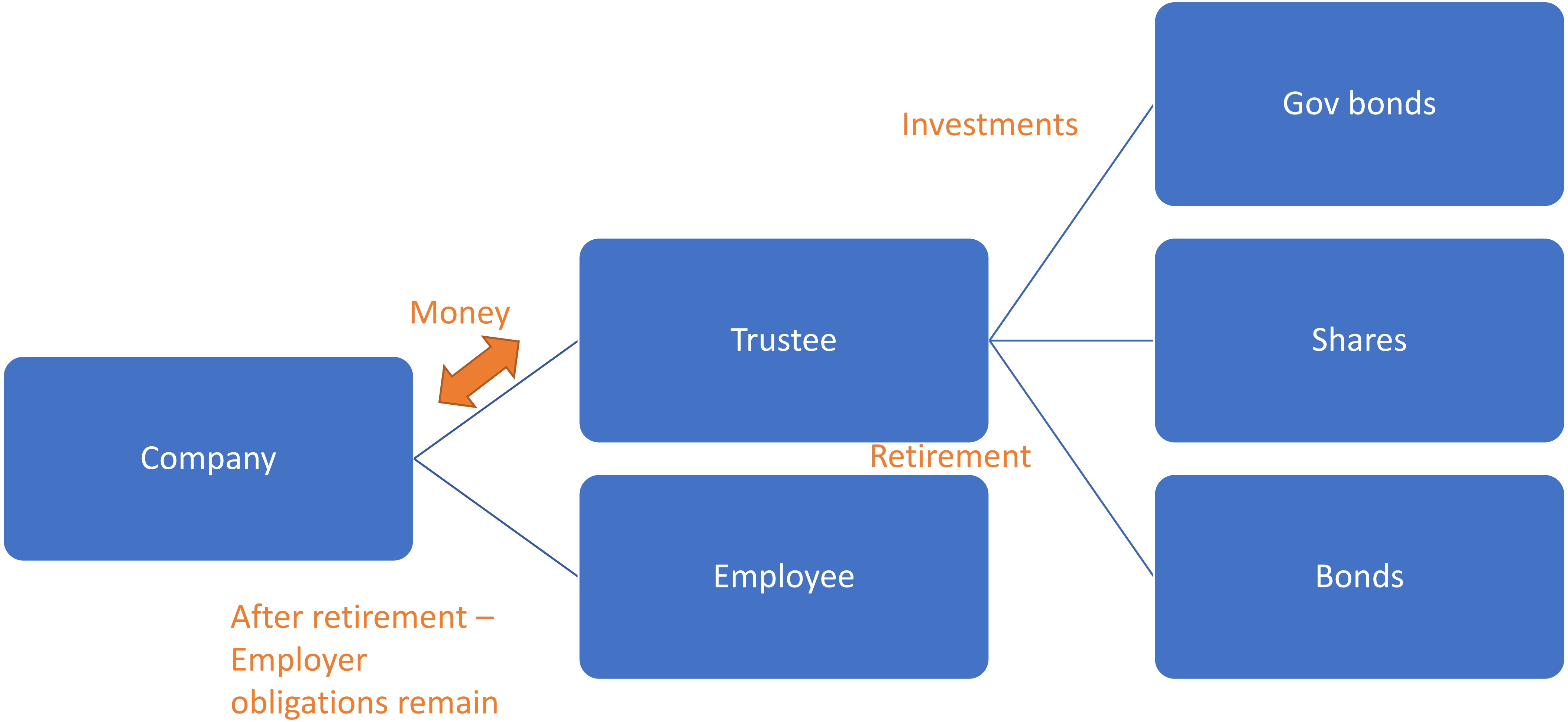
- Under defined benefit plan, the *employer has the obligation to pay specified amount of benefits according to the plan to the employee and all investment and actuarial risk thus fall on the entity.*
  - The risk that these contribution will need to be increased (e.g. if the fund's investments perform badly) falls upon the employer

Accounting for defined benefit plans

- In general, if employee have rendered services to an employer during an accounting period, the employer's financial statements for that period should recognise:
  a) An expense equal to the cost of the retirement benefits that will eventually be paid to the employees as a result of the services provided during that period
  b) A liability (or asset) equal to the difference between the plan total assets and the employers' total accumulated obligations under the plan.
- Calculation of these figures involve factors such as expected mortality rates and expected returns on investments

Post employment benefit

Defined benefit plan



Case
How to account for defined benefit plans?

Post-employment benefits

Prepare income statement and balance sheet entries using the following information on post-employment benefits

Opening present value of pension obligation	1 980
Closing present value of pension obligation	2 200
Opening present value of pension asset	2 000
Closing present value of pension asset	2 380
Current service cost	260
Pension benefits paid	300
Contribution paid by the company	180
Discount rate %	10

Given by actuarian

Disclosures relating to defined benefits plans

- The main disclosures required by IAS 19 with regard to defined benefit plans are:
  - A general description of the type of plan and any risks to which the entity is exposed because of the plan
  - Reconciliation of opening and closing balances for the defined obligation and for the plan assets
  - The significant actuarial assumptions used to determine the PV of the defined benefit obligation
  - Information which describes how the entity's defined benefit plan may affect its future cash flows

Fiskars Annual Report

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION	NOTE	2020	2019
Profit for the period		**68.5**	52.4
Other comprehensive income for the period:			
Items that may be reclassified subsequently to profit or loss:			
Translation differences		**-25.3**	9.3
Cash flow hedges		**0.3**	0.2
Items that will not be reclassified to profit or loss:			
Net change of investments at fair value through comprehensive income, net of tax			-24.3
Defined benefit plan actuarial gains (losses) net of tax	4.4	**0.2**	2.0
Other comprehensive income for the period net of tax		**-24.8**	-12.9
Total comprehensive income for the period		**43.6**	39.5
Attributable to:			
Equity holders of the parent company		**43.5**	38.5
Non-controlling interest		**0.1**	1.0
		43.6	39.5

2.4 Employee benefits and number of personnel

EMPLOYEE BENEFITS

EUR MILLION	2020	2019
Wages and salaries	**213.3**	247.5
Other compulsory personnel costs	**27.6**	36.1
Pension costs, defined contribution plans	**14.5**	17.4
Pension costs, defined benefit plans	**1.3**	1.6
Other post employment benefits	**1.3**	1.1
Termination benefits	**4.9**	8.2
Total	**262.9**	311.9

Other long-term benefits

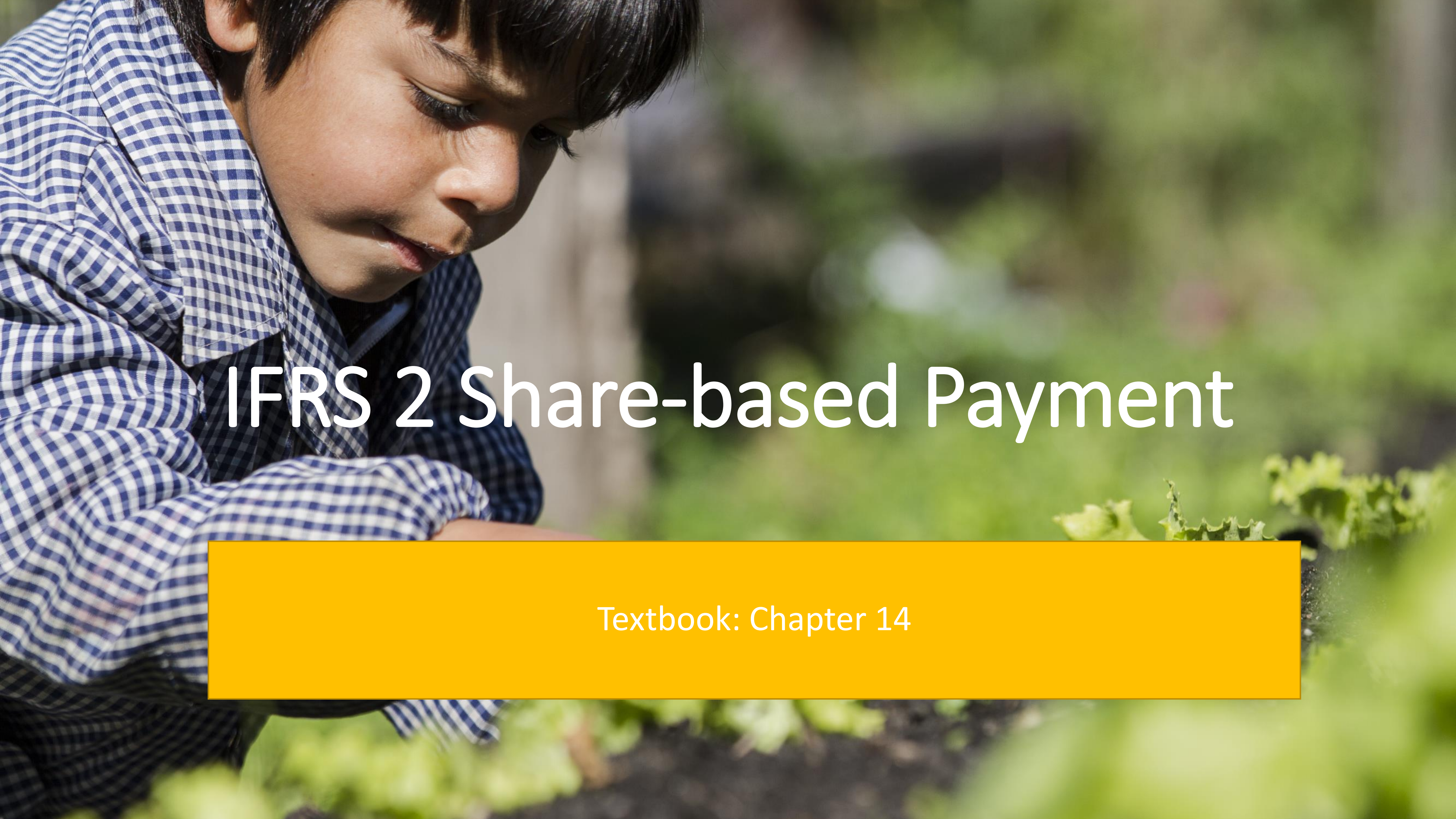
Other long-term benefits include the following items as long as these are not expected to be settled wholly before twelve month after the end of the period in which the employees render the related services.

The accounting treatment of these benefits is similar to the treatment required for defined benefit post-employment plans – the only difference is that nothing goes to OCI

- Long-term paid absences such as long-service or sabbatical leave;
- Long-term disability benefits;
- Profit-sharing and bonuses

Termination benefits

- Termination benefits are not provided in exchange for the service of the employee; instead, they are provided **in exchange for the termination of employment.**
- The primary question here is **WHEN** to recognize the liability and expense for termination benefits. It is at the earlier of:
    a) when the company can no longer withdraw the offer of those benefits (either the termination plan exists or employee accepts the offer of benefits) and
    b) when the company recognizes cost for a restructuring (IAS 37) and involves the payment of termination benefits.



IFRS 2 Share-based Payment

Textbook: Chapter 14

Learning Objectives

- Purpose of IFRS 2
- How to recognize share-based payments
- Disclosures

IFRS 2

Does company remunerate its top management by granting them own shares?

Do employees receive bonuses based on the increase of the company's share price?

Purpose of the standard

The objective of IFRS 2 is to prescribe the accounting treatment of payments made by an entity either

A) In the form of shares (including share options), or

B) In cash, where the amount of cash payable depends upon the company’s share price

Every other benefit paid to employees is reported in line with the standard IAS 19 Employee Benefits.

Why IFRS 2?

In the past, companies often did not reflect granting share options in their financial statements. Why?

- For very simple reason: the options had no intrinsic value, so there was nothing to record in the financial statements.

And what happens in such a case?

- If company paid its management by cash, the transaction was recorded as an expense. But if company paid its management by share options, nothing was recorded.

IFRS 2 is here to remove this inconsistency

IFRS 2 requires an entity to reflect the effect of share-based payment transactions (including share options to employees) in its BS & IS

What is a share-based payment arrangement?

- Share-based payment arrangement is an agreement between the entity and another party (including an employee) whereby the other party receives:

Cash-settled	Equity-settled
Cash or other assets of the entity for amounts that are based on the price of equity instruments of the entity or another group entity.	Alternatively, the other party can receive equity instruments of the entity or another group entity.
This type of arrangement is cash-settled share-based payment transaction.	This type is called equity-settled share-based payment.

If there are some specified vesting conditions, these must be met before receiving any share-based payment.

2 types of vesting conditions

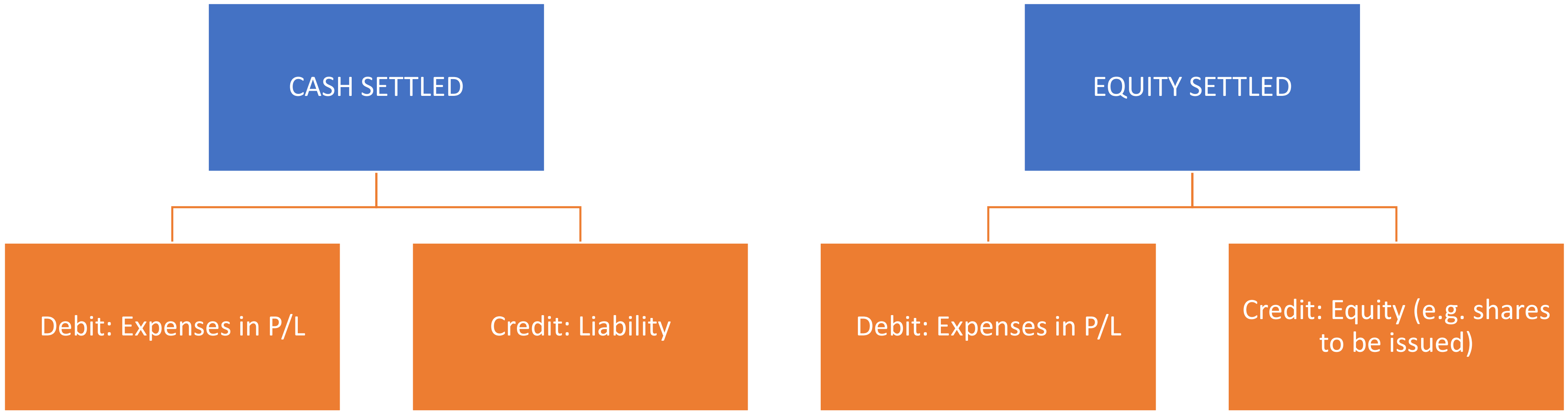
SERVICE CONDITIONS

- they require the counterparty to complete a specified period or service;

PERFOMANCE CONDITIONS

- they require the counterparty to complete a specified period of services AND specified performance targets to be met.

Recognition of Share-Based Payment transaction



Recognition of Share-Based Payment transaction

EQUITY SETTLED

- Entity should measure the fair value of each equity instrument at the grant date.
- Once made, this measurement is fixed and is not adjusted to reflect any changes in share values during the vesting period

CASH SETTLED

- Entity should measure this liability at fair value at the grant date and then re-measure the fair value of the liability at each reporting date during the vesting period
- Any changes are recognised in P/L

Case

- On 1.1.2018 a company which prepares its accounts to 31.12.2018 grant 5000 share options each to twelve of its senior employees.
  - Fair value of one share option is 9€ as of 1.1.2018
- The specified vesting date is 31.12.2020 and the grant is conditional upon the achievement of certain performance targets by that date. The estimations are as follows:
  - 31.12.2018: All employees will achieve their performance targets
  - 31.12.2019: Estimate has fallen to 11 employees
  - 31.12.2020: Only 10 employees achieved their targets

How the following transactions should be treated in the company's accounts?

Case

- At 31.12.2018 the total cost of the options is expected to be 540KEUR (12 * 5000 shares * 9EUR)
- 1/3 of the vesting period has expired by 31.12.2018 so an expense of 180KEUR (1/3 * 540KEUR) is recognised and equity is increased by 180KEUR

Case

- At 31.12.2019 the total cost of the options is expected to be 495KEUR (11 * 5000 shares * 9EUR)
- 2/3 of the vesting period has expired by 31.12.2018 so the expense to date is 330KEUR (2/3 * 495KEUR)
- An expense of 180KEUR was recognised in previous so a further expense of 150KEUR (330-180) is recognised and equity is increased by the same amount

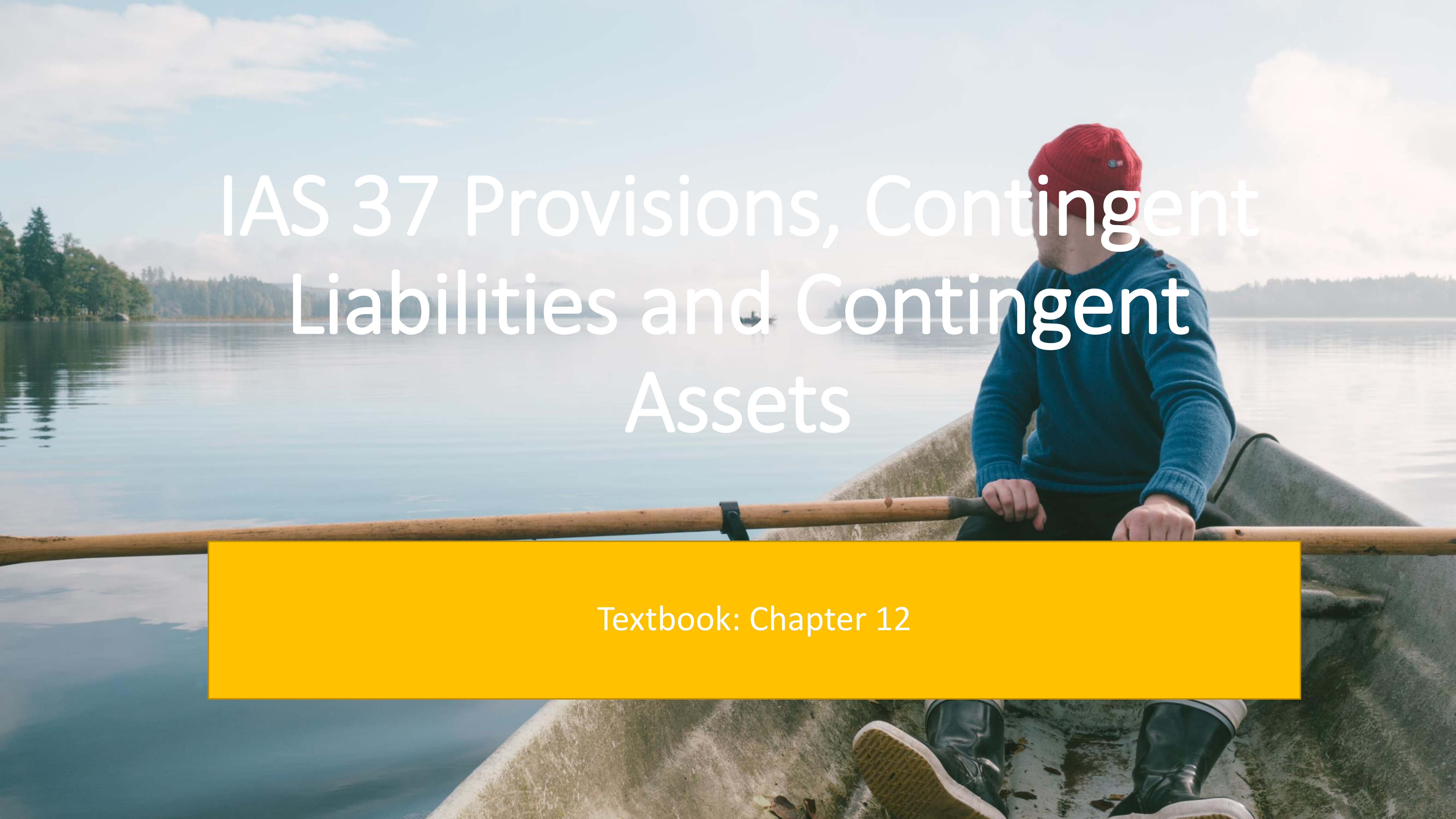
Case

- At 31.12.2010 the final cost of the option scheme is calculated as 450KEUR (10 * 5000 shares * 9EUR)
- Previously recognised expenses are 330KEUR so an expense of 120KEUR (450-330) is recognised and equity is increased by the same amount
- The amount of 450KEUR shown in equity for the share options will be transferred to share capital when the option are exercised by the successful employees.
- If any of these employees decide not to exercise their options, any remaining balance in the “shares to be issued” account may be transferred to retained earnings.

Disclosures relating to share-based payments

- The nature and extent of any share-based payment arrangements that existed during the accounting period
- How the fair value of equity instruments granted during the period was determined
- The effect of share-based payment transactions on entity’s financial statements

UPM ANNUAL REPORT 2020
SHARE BASED PAYMENTS (NOTE 3.3.)



IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Textbook: Chapter 12

Learning Objectives

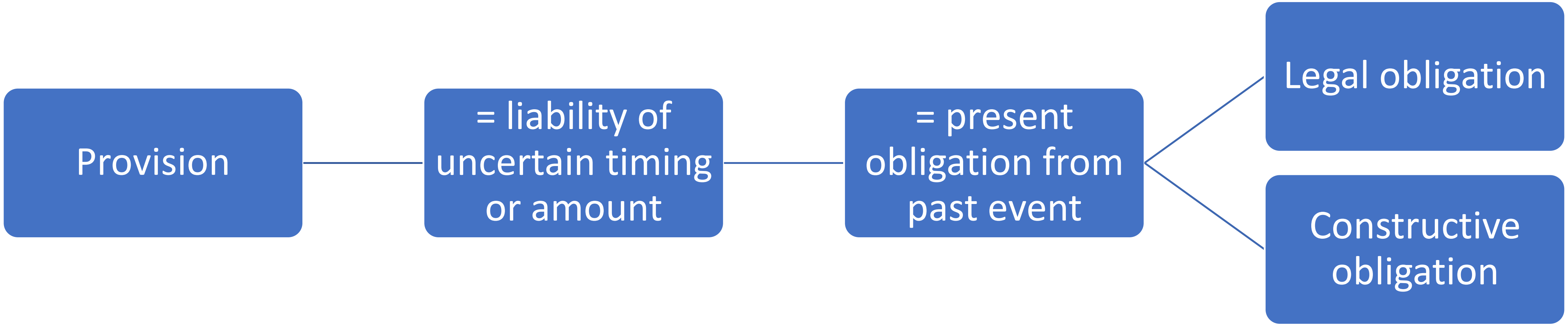
- Define the terms “provision”, “contingent liability” and “contingent asset”
- State the conditions under which a provision should be recognised and explain how the amount of a provision should be measured
- Explain the required accounting treatment of contingent assets and liabilities
- Explain the requirements with regard to future operating losses, onerous contracts and restructuring costs
- List the main disclosure requirements

What is a provision?

Provision is a liability of uncertain timing or amount.

The word ***"uncertain"*** is very important here, because if timing and amount are certain or almost certain, then you don't deal with the provision but with a payable or an accrual.

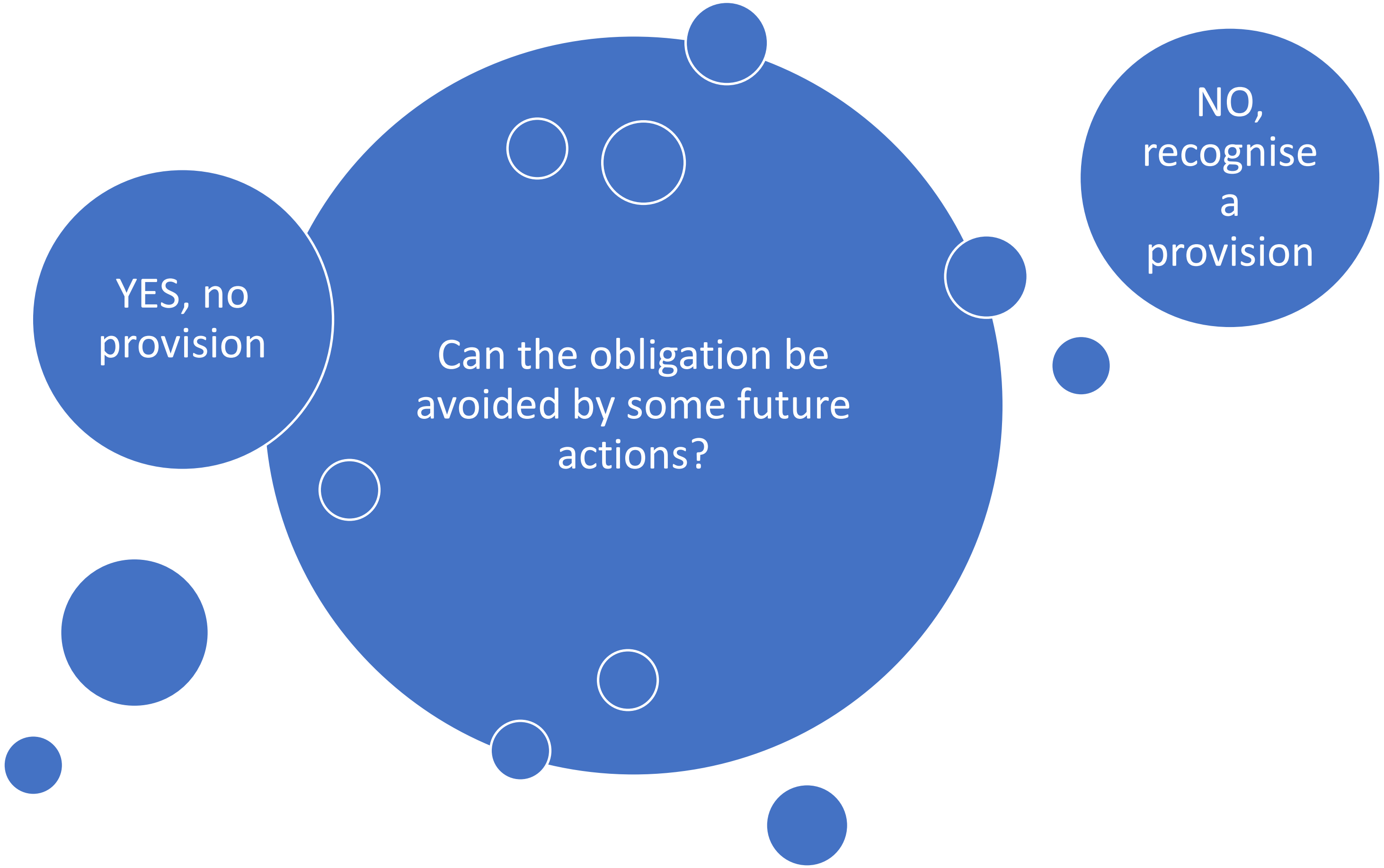
What is a provision?



Recognition of a provision

1. There must be a ***present obligation*** as a result of a ***past event***;
2. The ***outflow of economic benefits*** to satisfy the obligation must be ***probable*** (i.e. more than 50% probable)
3. The amount of economic benefits required to satisfy the obligation must be ***reliably estimated***.

Recognition of a provision



How to measure provision?

EXPECTED VALUE METHOD

- You would use this method when you have a range of possible outcomes or you measure the provision for large amount of items. In this case, you need to weight each outcome by its probability

THE MOST LIKELY OUTCOME

- This method is suitable in the case of a single obligation or just 1 item (for example, provision for loss in the court case).

Provisions in specific circumstances

Future operating losses

- You **should not** make a provision for future operating loss

Onerous contracts

- Onerous contract is a contract in which ***unavoidable costs of fulfilling exceed the benefits*** from the contract.
- You should make a provision in the amount lower of:
  - Unavoidable costs of fulfilling the contract and
  - Penalty for not meeting your obligations from the contract

Provisions in specific circumstances

Restructuring costs

- Restructuring is a plan of management to ***change the scope of business or a manner of conducting a business***.
- You should recognize a provision for restructuring only when the general criteria for recognizing provisions are met.
  - There is a **detailed formal plan** for restructuring with relevant information in it
  - A **valid expectation** related to restructuring has been raised in the affected parties.

Case (page 195)

- Should a provision be recorded?

On 1 January 2017, the company acquired new plant costing £10 million. This plant will require a complete overhaul after five years of use, at an estimated cost of £1 million. Accordingly, the company wishes to make a provision of £200,000 for plant overhaul costs in its financial statements for the year to 31 December 2017 and then to increase this provision by £200,000 in each of the next four years. This will have the effect of spreading the overhaul costs evenly over the years 2017 to 2021.

- Solution

At 31 December 2017, there is no present obligation to undertake the overhaul that is due in four years time. The plant could in fact be sold before the overhaul is required. Therefore no provision can be made for the overhaul costs. International standard IAS16 *Property, Plant and Equipment* prescribes the accounting treatment of this type of expenditure (see Chapter 5).

Case (page 195)

- Should a provision be recorded?

On 1 August 2017, the company took out a 12-month lease on factory premises at a monthly rental of £10,000. However, these premises are now surplus to requirements and will stand empty until the lease comes to an end. The lease is non-cancellable and the premises cannot be sub-let. The company wishes to make a provision of £70,000 in its financial statements for the year to 31 December 2017.

- Solution

In general, IAS37 does not apply to leases. But this is an example of an operating lease (IAS17) or short-term lease (IFRS16) and IAS37 does apply to such leases if they become onerous. The obligation of £70,000 (£10,000 per month from 1 January 2018 to 31 July 2018) is unavoidable and should be provided for.

Case (page 195)

- Should a provision be recorded?

In November 2017, the company decided to sell off one of its operations. No buyer had been found at 31 December 2017, but the sale is expected to result in a loss of £500,000 when it occurs. The company wishes to provide for this loss in the financial statements for the year to 31 December 2017.

- Solution

There is no binding sales agreement in existence at 31 December 2017 and so there is no present obligation on that date. A provision cannot be made.

However, depending on the circumstances, the non-current assets of the operation might be classified as "held for sale" and measured in accordance with the requirements of IFRS5 (see Chapter 8). Assets of the operation that are not classified as held for sale should be tested for impairment under IAS36 (see Chapter 7).

What are contingencies?

Contingent liability

- ***A possible obligation*** (not present) from past event that will be confirmed by some future event; or
- A present obligation from past event, but either:
  - The ouflow of economic benefits to satisfy this obligation is ***not probable*** (less than 50%), or
  - The amount of obligation cannot be reliably measured (this is very rare, in fact).

Contingent asset

- A ***contingent asset*** is a ***possible asset*** arising from past events that will be confirmed by some future events not fully under the entity's control.
- Similarly as with contingent liabilities, you should not book anything in relation to contingent assets, but you ***make appropriate disclosures***.

Case (page 197)

EXAMPLE 4

In May 2017, ABC plc (which prepares financial statements to 31 December) guaranteed a £100,000 bank loan provided to DEF Ltd. DEF Ltd was in a strong financial position at 31 December 2017, but this had worsened by 31 December 2018 and it seemed likely on that date that ABC plc would be required to honour its guarantee.

Explain how this guarantee should be treated in the financial statements of ABC plc at 31 December 2017 and 2018.

Case (page 197)

Solution

At 31 December 2017, there is a present obligation arising from a past event. However, an outflow of economic benefits does not seem probable, so no provision can be made. The guarantee falls within the definition of a contingent liability and should be disclosed in the notes to the financial statements, unless the possibility of an outflow of benefits is judged to be remote.

At 31 December 2018, there is still a present obligation arising from a past event, but now it seems probable that there will be an outflow of economic benefits. As long as a reliable estimate of the obligation can be made (which will almost certainly be the case) a provision should be made in relation to this obligation.

Disclosures – Fiskars Annual Report 2020

4.5 Provisions

Accounting principles

A provision is recognized when the group as a result of a past event has a present legal or constructive obligation, it is probable that the obligation will be realized and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognized when a detailed formal plan has been prepared and when there is a valid expectation relating those affected that the plan will be carried out. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognized as a separate asset, but only when receipt of the compensation is virtually certain.

Fiskars Group may be a party to lawsuits and legal processes concerning the group's business operations. A related provision is recognized in the financial statements when the amount of the expenditure can be estimated reliably and it is more likely than not that they will be realized. Otherwise these contingent liabilities are disclosed in the notes.

Warranty provisions relate to products sold and are reviewed and adjusted regularly to reflect the estimated cash outflows to settle the warranty claims. Other provisions include, among others, provisions for legal expenses and estimated costs for refurbishment of premises.

2020

NON-CURRENT PROVISIONS

EUR MILLION	WARRANTY PROVISION	RESTRUCTURING PROVISION	ONEROUS CONTRACTS AND OTHER PROVISIONS	TOTAL
Provisions, Jan 1	0.4	0.1	3.7	4.1
Translation differences		0.0	-0.1	-0.1
Additions	0.2		0.0	0.2
Used provisions			-0.0	-0.0
Change in estimates			0.0	0.0
Reversals			-0.6	-0.6
Provisions, Dec 31	**0.5**	**0.1**	**3.0**	**3.6**

CURRENT PROVISIONS

EUR MILLION	WARRANTY PROVISION	RESTRUCTURING PROVISION	ONEROUS CONTRACTS AND OTHER PROVISIONS	TOTAL
Provisions, Jan 1	2.5	0.0	1.7	4.1
Translation differences	-0.1		-0.0	-0.2
Additions	0.0	0.6	0.8	1.4
Used provisions	-0.0	-0.1	-0.3	-0.5
Change in estimates	0.0	0.2		0.2
Reversals	-0.1	-0.1		-0.2
Provisions, Dec 31	**2.2**	**0.6**	**2.1**	**4.9**

2019

NON-CURRENT PROVISIONS

EUR MILLION	WARRANTY PROVISION	RESTRUCTURING PROVISION	ONEROUS CONTRACTS AND OTHER PROVISIONS	TOTAL
Provisions, Jan 1	0.4	0.3	4.5	5.1
Translation differences	0.0	0.0	0.0	0.0
Additions			0.2	0.2
Used provisions		-0.2		-0.2
Change in estimates			0.0	0.0
Reversals			-1.0	-1.0
Provisions, Dec 31	**0.4**	**0.1**	**3.7**	**4.1**

CURRENT PROVISIONS

EUR MILLION	WARRANTY PROVISION	RESTRUCTURING PROVISION	ONEROUS CONTRACTS AND OTHER PROVISIONS	TOTAL
Provisions, Jan 1	3.7	-0.0	1.7	5.4
Translation differences	0.0	0.0	0.0	0.1
Additions	0.0		0.1	0.2
Used provisions	-0.1	0.0	-0.1	-0.2
Change in estimates	0.2			0.2
Reversals	-1.5		-0.0	-1.5
Provisions, Dec 31	**2.5**	**0.0**	**1.7**	**4.1**

NEXT TIME: IFRS 3, IFRS 10, IAS 12 & IFRS 9