

International Accounting (22E00400)

Spring 2019

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Welcome!

Nina Sormunen, PhD

- PhD: Copenhagen Business School (2012)
- Research areas:
 - Auditor's going concern reporting
 - Audit reporting
 - Auditor's work motivation
 - Reorganization
- Work experience:
 - Senior expert, Group Accounting and Reporting, UPM (current)
 - IFRS expert, Accounting and Reporting, EY (2017-2018)
 - Assistant Professor, Department of Accounting and Auditing, Copenhagen Business School (2013-2017)
 - PhD fellow (2010-2012)



Welcome!

Learning objectives of the course

- After attending this course, you will be able to understand, evaluate and apply the most important international financial reporting standards
- You will also understand the main challenges that entities and auditors are facing in applying them
- In addition, you will be familiar with some of the recent research & master theses related to IFRS that help you to come up with ideas for master thesis work

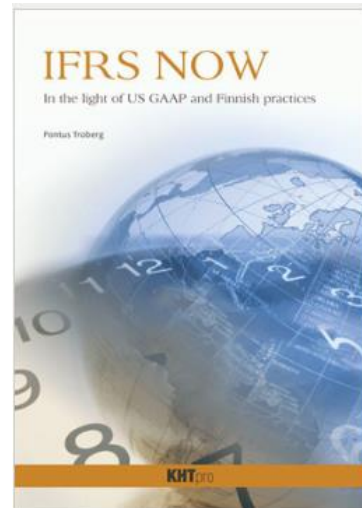
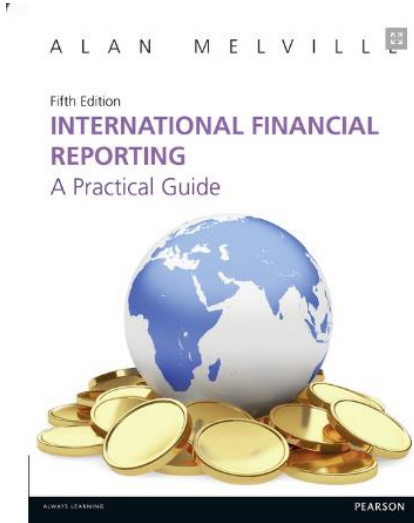
Welcome!

Teaching philosophy

- Main accounting standards
- Concepts and underlying principles
- Numeric or other examples solved in class
- Pre-assignment and term paper (both mandatory)

Welcome!

Readings



eIFRS

2018 Red Book

IFRS 15: Revenue from Contracts with Customers

Appendix B Accounting Guidance

IFRS 15
Revenue from Contracts with Customers

Appendix B Accounting Guidance

IAAER
INTERNATIONAL ASSOCIATION FOR ACCOUNTING EDUCATION & RESEARCH

Log in

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Forgot your password?
Didn't receive confirmation instructions?

The screenshot shows a web browser displaying the eIFRS website. The page is titled '2018 Red Book' and 'IFRS 15: Revenue from Contracts with Customers'. It includes a navigation menu on the left with categories like 'New Standards', 'Consultations', and 'Standards (PDF)'. The main content area shows the title 'IFRS 15 Revenue from Contracts with Customers' and a 'Log in' form with fields for 'Email' and 'Password', a 'Remember me' checkbox, and a 'Log in' button. There are also links for 'Forgot your password?' and 'Didn't receive confirmation instructions?'.

Welcome!

How to prepare for classes

- Download and get familiar with the IFRS (&IAS) standards that will be discussed in class
- Check Youtube for each IFRS/IAS standard
- Download IFRS/IAS standard descriptions from the IASB website (www.ifrs.org)

Welcome!

Course Requirements

- Exam 60 % + exercises 40 % totaling to 100p.
- Passing the course requires all the following conditions are met:
 - Exam 50% x 60 p = 30 p at the minimum
 - Exam + Term paper = 50 p at the minimum
 - Pre-assignment prepared and submitted according to the requirements
 - Term paper presentation and feedback to another term paper provided (by at least one of the group members).
- Exam based on the course literature + handout materials
- Course grading on the normal six-point scale (0 - 5)

TERM PAPER –
See the
instructions at
Mycourses

Welcome!

Course schedule

Lecture	Weekday	Content
25.4.2019	Thursday	Lease accounting (IFRS 16) Assets for sale and discontinued operations (IFRS 5)
26.4.2019	Friday	IAS 1 Presentation of Financial Statements Investment property (IAS 40)
2.5.2019	Thursday	Contracts with customers (IFRS 15) Fair value measurement (IFRS 13)
3.5.2019	Friday	Employee benefits (IAS 19) Taxes (IAS 12)
9.5.2019	Thursday	Share-based payments (IFRS 2) Share Investments (IAS 28), IFRS 11 joint arrangements
10.5.2019	Friday	Financial instruments and hedging (IFRS 7 & IFRS 9) Agriculture (IAS 41)
16.5.2019	Thursday	Consolidated Financial Statements (IFRS 10), Business Combinations (IFRS 3) Operating segments (IFRS 8)
17.5.2019	Friday	Intangible assets (IAS 38) Impairment of Assets (IAS 36)
23.5.2019	Thursday	Term paper presentations & feedback session I
24.5.2019	Friday	Term paper presentations & feedback session II

IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

IFRS 16 LEASES

Nina Sormunen

25.4.2018

IFRS 16 LEASES

IFRS 16 Learning Objectives

1. Scope and scope exclusions

2. Determining whether an arrangement contains a lease

3. Recognition and measurement of right-of-use assets & lease liability

4. Lease term & Discount rate

5. Presentation and disclosure

Scope and scope exceptions

- IFRS 16 applies to all leases, including leases of right-of-use assets in a sublease, except for the following:

Leases to explore for or use minerals, oil, natural gas and similar non-regenerative 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 held by a lessee under licensing agreements within the scope of IAS 38

Overview of IFRS 16

General

Lessees

- Single on-balance sheet accounting model for most leases

Lessors







- Dual lease accounting model substantially unchanged

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019.

The reason behind the new standard is to give a more faithful representation of lessees' assets and liabilities and greater transparency of lessees' financial obligations and leasing activities.

Overview of IFRS 16







Balance sheet impact

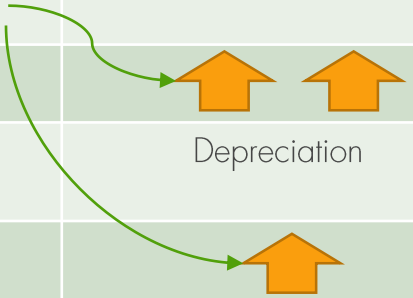
	IAS 17 Finance leases	IAS 17 Operating leases	IFRS 16 All leases
Assets		_____	
Liabilities			
Off balance sheet rights/obligations	_____		
			



Overview of IFRS 16

Income statement impact

	IAS 17 Finance leases	IAS 17 Operating leases	IFRS 16 All leases
Revenue			
Operating costs		Single lease expense	
EBITDA			
Depreciation and amortization	Depreciation		Depreciation
Operating profit			
Finance costs	Interest		Interest
Profit before tax			



How to identify a lease?

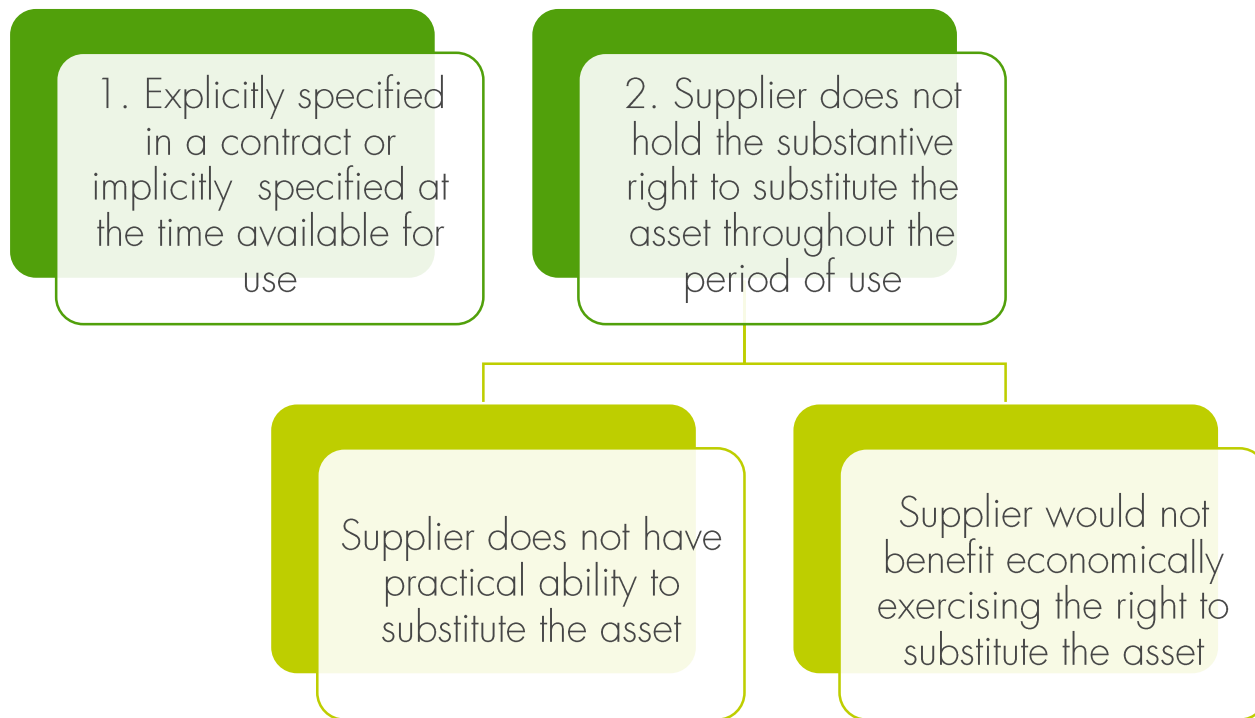
Definition of a lease

A lease is a contract that conveys the right to use an asset for a period of time in exchange for consideration



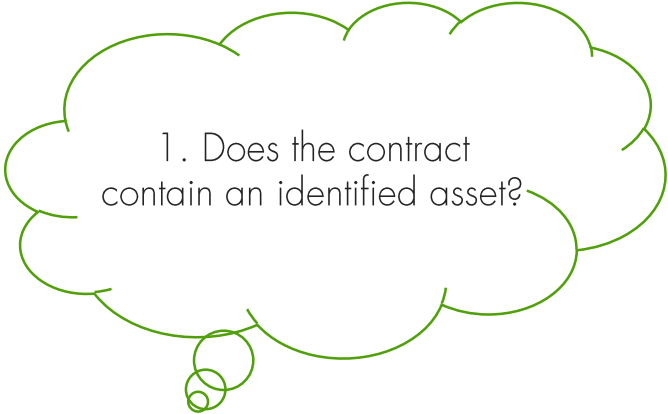
How to identify a lease?

Identified asset

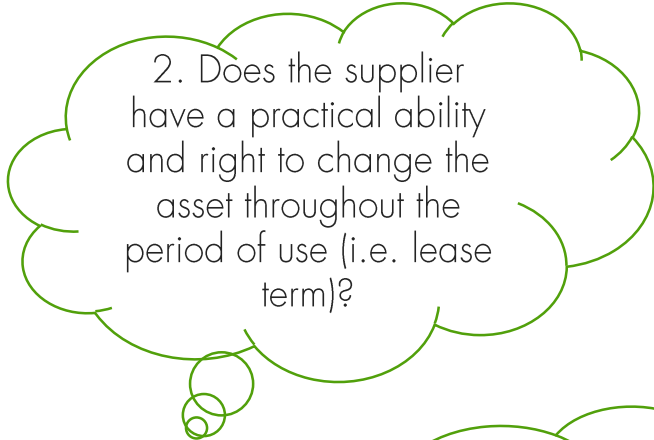


How to identify a lease?

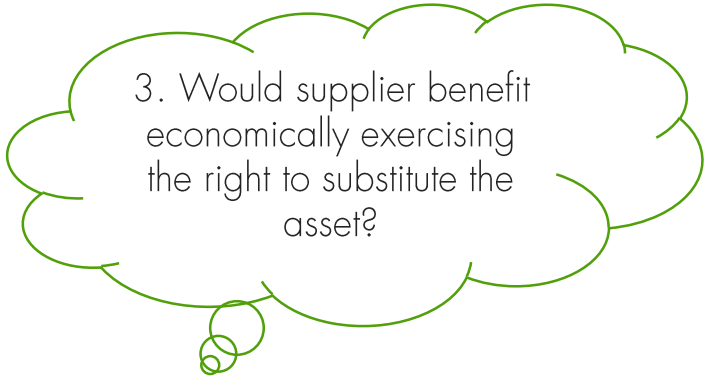
Identified asset - Questions to be addressed



1. Does the contract contain an identified asset?



2. Does the supplier have a practical ability and right to change the asset throughout the period of use (i.e. lease term)?



3. Would supplier benefit economically exercising the right to substitute the asset?

How to identify a lease?

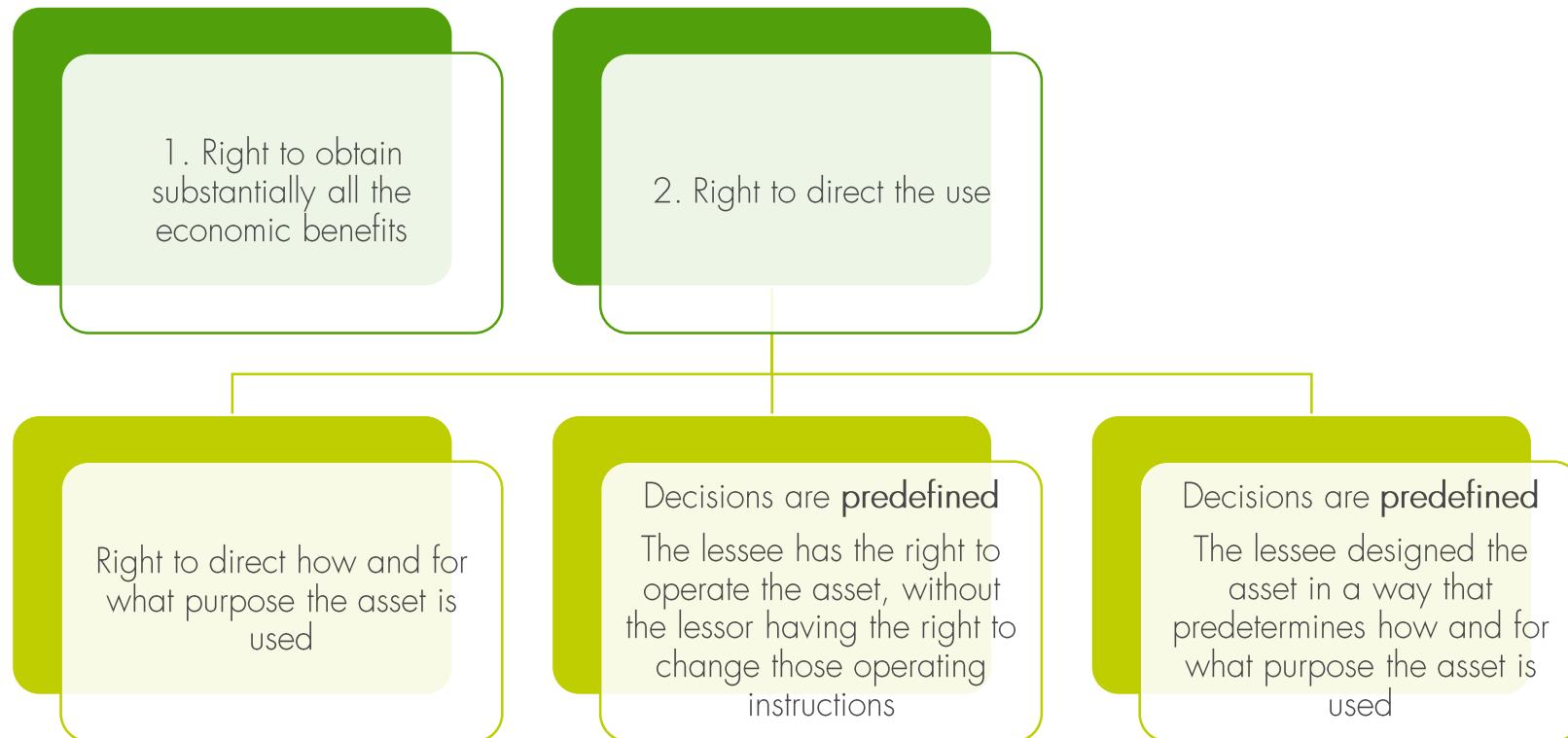
A capacity portion of an asset

- An identified asset can be a physically distinct portion of a larger asset.
- A capacity portion of an asset is an identified asset if:
 - ✓ The portion it is physically distinct or
 - ✓ The portion represents substantially all of the capacity of the asset

	Identified asset?	
	Yes	No
Warehouse	The contract gives the entity the right to use a specific area of the warehouse for the full contract period or entity's storage requirement accounts for substantially all of the capacity of the warehouse (90 %)	The contract gives the right to a certain capacity (e.g. 40%) of storage area. The supplier has a right to direct where the goods are stored. → The entity does not have exclusive use of a specified portion of the warehouse and the portion is not substantially all of the warehouse capacity

How to identify a lease?

Right to control the use of the identified asset



How to identify a lease?

Right to control - Questions to be addressed

1. Is entity entitled to almost all of the output of the asset, or are there other customers involved?

2. Does entity make the relevant decisions on when, where and how the asset is used? (type/amount of output, scheduling, etc.)

3. If relevant decision-making rights are predefined in the contract or otherwise, does entity operate the asset? Or is the asset designed for entity?

How to identify a lease?

Example - Right to direct the use of an asset

Entity enters into a contract with Supplier to use a vehicle for a three year period. The vehicle is identified in the contract. Supplier cannot substitute another vehicle unless the specified vehicle is not operational (e.g., it breaks down). Under the contract:

- ✓ Entity operates the vehicle (i.e., drives the vehicle) or directs others to operate the vehicle (e.g., hires a driver).
- ✓ Entity decides how to use the vehicle (within contractual limitations, discussed below). For example, throughout the period of use, Entity decides where the vehicle goes as well as when or whether it is used and what it is used for. Entity can also change these decisions throughout the period of use.
- ✓ Supplier prohibits certain uses of the vehicle (e.g., moving it overseas) and modifications to the vehicle to protect its interest in the asset.

Analysis

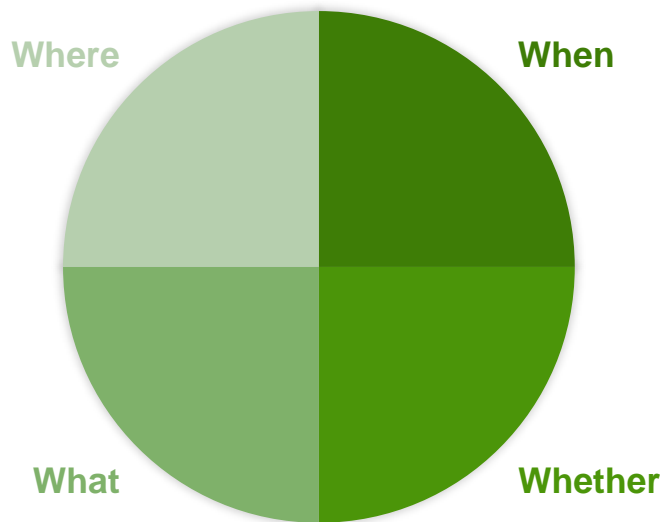
Entity has the right to direct the use of the identified vehicle throughout the period of use. Entity has the right to direct the use of the vehicle because it has the right to change how the vehicle is used, when or whether the vehicle is used, where the vehicle goes and what the vehicle is used for.

Supplier's limits on certain uses for the vehicle and modifications to it are considered protective rights that define the scope of Entity's use of the asset but do not affect the assessment of whether Entity directs the use of the asset.

How to identify a lease?

Decision-making rights subject to the arrangement

DECISION MAKING RIGHTS



Decisions about maintaining and operating the asset do not result in the right to change how and for what purpose the asset is used throughout the period of use (unless all the decision-making rights are predefined).

Recognition and measurement of right-of-use assets & lease liability

Initial recognition

- IFRS 16 requires lessees to recognise a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases, except for short-term leases and leases of low-value assets if they choose to apply such exemptions.

Short-term lease: a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset

Low value lease: At the time of reaching its decisions about the exemption, the IASB had in mind leases of underlying assets with a value, when new, of US\$5,000 or less.

Examples of low-value assets include desktop and laptop computers, small items of office furniture, telephones and other low-value equipment.

The lessee recognizes the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

Recognition and measurement of right-of-use assets & lease liability

Initial measurement of lease liability

Lease payments are payments, made by a lessee to a lessor, relating to the right to use an underlying asset during the lease term and include the following amounts:

Fixed payments	Purchase options (exercise price)	Residual value guarantees	Termination penalty	Variable lease payments based on index or rate
<ul style="list-style-type: none">• Including in-substance fixed payments	<ul style="list-style-type: none">• Include if reasonably certain of exercise	<ul style="list-style-type: none">• Expected payments entity has to make under guarantee	<ul style="list-style-type: none">• Include if reasonably certain of exercise	<ul style="list-style-type: none">• Variable lease payments that do not depend on index or rate are excluded from lease payments

Recognition and measurement of right-of-use assets & lease liability

Amounts excluded from lease payments (lease liability)

Variable lease payments linked to future performance or use of an asset

- Examples include lease payments based on x% of annual sales, hours used, units delivered, usage of warehouse etc.

Amounts allocated to non-lease components

- Entities may separate non-lease components from lease components in every asset class

Components of a contract

Example

Entity enters into a three-year lease of building, with fixed annual payments of EUR120,000. The contract itemises the fixed annual payments as follows:

- EUR90,000 for rent,
- EUR30,000 for maintenance

Analysis: The contract contains two components - one lease component (lease of building) and a non-lease component (maintenance). Therefore, the total consideration in the contract of EUR360,000 is allocated to the lease component (building) and the non-lease component (maintenance).

Recognition and measurement of right-of-use assets & lease liability

Initial measurement of right-of-use asset

- A lessee initially measures the right-of-use asset at cost, which consists of all of the following

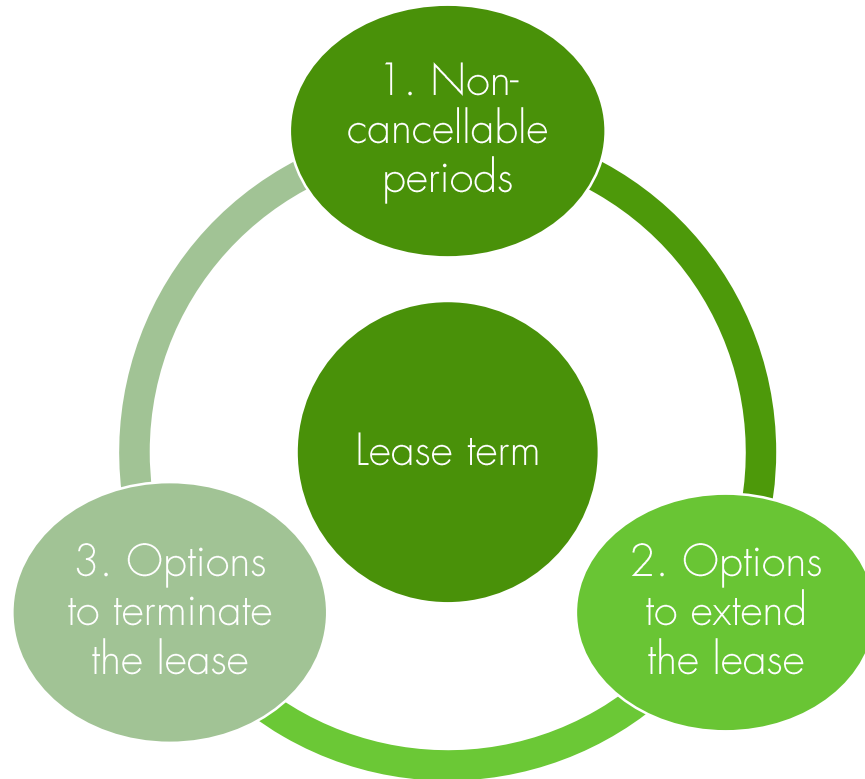
The amount of the initial measurement of the lease liability

Any prepayments at or before the commencement date, less any lease incentives received from the lessor

Any initial direct costs incurred by the lessee

Any cost to be incurred by the lessee in dismantling and remove the underlying asset

Lease term



Entity needs to consider all relevant facts and circumstances that create an economic incentive for entity to exercise the option when determining the lease term.

Reassessment of lease term

✓ Reassessment of lease term upon occurrence of a significant event or a significant change in circumstances, including:

Significant leasehold improvement not anticipated at commencement date

Significant modification to underlying asset not anticipated at commencement date

✓ Lease term needs to be revised if there is a change in the non-cancellable period of a lease.

Business decision of the lessee that is relevant to exercising (or not) an option

Lease term

Example

Example A

Assume that entity enters into a lease for equipment that includes a noncancelable term of four years and a two-year fixed-priced renewal option with future lease payments that are intended to approximate market rates at lease inception. There are no termination penalties or other factors indicating that entity is reasonably certain to exercise the renewal option.

Analysis: The lease term is four (4) years

Example B

Assume that entity enters into a lease for a building that includes a noncancelable term of four years and a two-year, market-priced renewal option. Before it takes possession of the building, entity pays for leasehold improvements. The leasehold improvements are expected to have significant value at the end of four years, and that value can only be realised through continued occupancy of the leased property.

Analysis: The lease term is six (6) years.



At lease commencement, entity determines that it is reasonably certain to exercise the renewal option because it would suffer a significant economic penalty if it abandoned the leasehold improvements at the end of the initial non-cancellable period.

Discount rate

- ✓ Discount rates are used to determine the present value of the lease payments, which are used to measure a lessor's net investment in the lease and a lessee's lease liability.
- ✓ For a lessee, the discount rate for the lease is the interest rate implicit in the lease and, if that rate cannot be readily determined, its incremental borrowing rate. For a lessor, the discount rate for the lease is the interest rate implicit in the lease.

Lessee's incremental borrowing rate: The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Disclosure and presentation

Objective

The approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed

Disclosure and presentation

Presentation in the financial statements

Statement of financial position

A lessee shall either present in the statement of financial position, or disclose in the notes

1

Right-of-use assets separately from other assets

- ▶ If not presented separately in the statement of financial position right-of-use assets are presented within the same line item as if they were owned

2

Lease liabilities separately from other liabilities

If the lessee does not present right-of-use assets and lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those assets and liabilities.

Statement of profit or loss

Instead of lease expense the following expense line items will be presented:

- ▶ Depreciation charge for the right-of-use assets
- ▶ Interest expense on lease liability

Statement of cash flows

Classification of lease related information in the statement of cash flows:

Operating activities

- ▶ Cash payments for the interest portion of the lease liability
- ▶ Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability

Investing activities

- ▶ No impact

Financing activities

- ▶ Cash payments for the principal portion of the lease liability

Disclosure and presentation

Illustrative example, presentation

Statement of financial position	IAS 17	IFRS 16
Assets		
Property, plant and equipment	44 521	44 521
Lease assets	958	18 757
Other	26 703	26 703
Total non-current assets	72 182	89 981
Total current assets	38 086	38 086
Total assets	110 268	128 067
Equity and liabilities		
Equity	29 324	27 037
Borrowings	22 533	22 533
Lease liabilities	697	21 233
Other liabilities	57 714	57 264
Total liabilities	80 944	101 030
Total liabilities and equity	110 268	128 067

Statement of profit or loss	IAS 17	IFRS 16
Revenue and other income	164 181	164 181
Cost of sales	(141 937)	(140 764)
Gross profit	22 244	23 417
Operating costs	(16 222)	(16 222)
Operating profit	6 022	7 195
Net finance costs	(1 293)	(2 393)
Profit before tax	4 729	4 802
Income tax	(1 161)	(1 161)
Profit for the year	3 568	3 641

Statement of cash flows	IAS 17	IFRS 16
Operating activities	5 312	7 117
Investing activities	(3 283)	(3 283)
Financing activities	(2 236)	(4 041)
Total cash outflow	(207)	(207)

Disclosure and presentation

Lessee disclosures in the financial statements

A lessee shall provide the following disclosures in a tabular format, unless another format is more appropriate:

IFRS 16 disclosures	IAS 17 and other IFRS disclosures	What has changed?
Lease related income and expenses: <ul style="list-style-type: none"> ▶ Depreciation ▶ Interest on lease liabilities ▶ Short-term and low-value lease expense ▶ Expense related to variable payments not included in the measurement of lease liabilities ▶ Income from subleasing right-of-use assets ▶ Gains or losses arising from sale and leaseback transactions 	General requirements under IAS 16 Property, Plant and Equipment and IFRS 7 Financial Instruments: Disclosures	Modified
▶ Total cash out flows for leases	Not required under IAS 17	New
▶ Additions to right-of-use assets	Required under IAS 7	No change
▶ Carrying amount of right-of-use assets by class of underlying asset	General requirements under IAS 16	Modified
▶ Commitments for short-term leases*	Required under IAS 17	No change
▶ Maturity analysis of lease liabilities	Not required under IAS 17	New
	General requirements under IFRS 7	Modified

* This disclosure is only required if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense already disclosed relates.

Disclosure and presentation

Additional information

In addition, a lessee shall disclose additional qualitative and quantitative information about its leasing activities. This additional information may include, but is not limited to, information that helps users of financial statements to assess:

IFRS 16 disclosures	IAS 17 and other IFRS disclosures	What has changed?
▶ Nature of leasing activities	Required under IAS 17	No change
▶ Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:		
▶ Variable lease payments	Limited IAS 17 disclosure requirements	Modified
▶ Extension and termination options		Modified
▶ Residual value guarantees		New
▶ Leases not yet commenced to which the lessee is committed		New
▶ Restrictions or covenants imposed by leases	Limited IAS 17 disclosure requirements	Modified
▶ Sale and leaseback transactions	Required under IAS 17	Modified

IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

IFRS 5 Learning Objectives

1. Classify of non-current assets as either held for use or held for sale

2. Explain the concept of a "disposal group"

3. Measure non-current assets (or disposal groups) held for sale

4. Define the term discontinued operation

5. Main presentation and disclosure requirements for non-current assets held for sale and discontinued operations

When any disposal occurs, consideration should be given to IFRS 5 Disposal of subsidiaries, businesses and non-current assets requirements.

IFRS 5

Overview

- IFRS 5 requires
 - a non-current asset or disposal group to be classified as held for sale if its carrying amount will be recovered principally **through a sale transaction instead of through continuing use**;
 - assets held for sale to be measured at the lower of the carrying amount and fair value less costs to sell;
 - depreciation of an asset to cease when it is held for sale;
 - separate presentation in the statement of financial position of an asset classified as held for sale and of the assets and liabilities included within a disposal group classified as held for sale; and
 - separate presentation in the statement of comprehensive income of the results of discontinued operations.

Non-current assets are assets that do not meet the definition of current assets.


Disposal group is a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction. May consist of a number of cash-generating units, a single-cash generating unit or part of a cash-generating unit

The criteria which are used to determine whether or not a disposal group is held for sale are the same as those which apply in the case of individual non-current assets

Classification of assets as held for sale

General

- The following conditions must be met for an asset (or "disposal group") to be classified as "held for sale"
 - management is committed to a plan to sell;
 - the asset is available for immediate sale;
 - and active programme to locate a buyer is initiated;
 - the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions);
 - the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
 - actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.



Generally the sale of assets is made public by a press release

Classification of assets as held for sale

Examples



Let's take a look at the examples on the page 136

Measurement of assets held for sale

General

MEASUREMENT

- Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell, if the entity will recover their carrying amount through a sale transaction which is considered highly probable.

DEPRECIATION

- Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated after the classification, regardless of whether they are being used or not after the classification as held for sale.

Measurement of assets held for sale

Impairment (IAS 36)

In each financial year, tests for impairment loss under IAS 36 should be made for assets classified as held for sale.



An impairment loss is recognised in the profit or loss for any initial and subsequent write-down of the asset or disposal group to fair value less costs to sell.

Subsequent increases in fair value: A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the profit or loss to the extent that it is not excess of the cumulative impairment loss that has been recognised in accordance with IFRS 5 or previously in accordance with IAS 36

Measurement of assets held for sale

Exercise



Let's take a look at the exercise 8.2 on the page 145

Discontinued operations

A discontinued operation is *"a component of an entity that either has been disposed of or is classified as held for sale"*

A component of an entity comprises *"operations and cash flows that can be clearly distinguished....from rest of the entity"*

In general, a discontinued operation will represent *"a separate major line of business or geographical area of operations"*

Reporting of assets held for sale

Presentation

Non-current asset held for sale should be presented separately in the balance sheet, including liabilities (typically under current assets / current liabilities)

The results of discontinued operations should be presented separately in the comprehensive income and cash flow statement

Reporting of assets held for sale

Disclosure

Other additional disclosures including a description of the nature of assets held and the facts and circumstances surrounding the sale

Adjustments made in the current period to amounts disclosed as a discontinued operation in prior periods must be separately disclosed.

If an entity ceases to classify a component as held for sale, the results of that component previously presented in discontinued operations must be reclassified and included in income from continuing operations for all periods presented.

UPM annual report 2016

Consolidated balance sheet

EURm	NOTE	2016	2015
ASSETS			
Goodwill	4.4	245	241
Other intangible assets	4.4	301	329
Property, plant and equipment	4.1	4,657	4,895
Forest assets	4.2	1,734	1,738
Energy shareholdings	4.3	1,932	2,085
Other non-current financial assets	5.3	255	332
Deferred tax assets	7.2	446	466
Net retirement benefit assets	3.4	71	93
Investments in associates and joint ventures		29	28
Other non-current assets		47	52
Non-current assets		9,715	10,259
Inventories	4.6	1,346	1,376
Trade and other receivables	4.6, 5.3	1,726	1,743
Other current financial assets	5.3	109	133
Income tax receivables		14	56
Cash and cash equivalents	5.1	992	626
Current assets		4,187	3,934
Assets classified as held for sale		8	-
Assets		13,911	14,193

UPM annual report 2016

8.4 Assets held for sale

Assets classified as held for sale at the end of 2016 relate to hydro power assets located at the mill site in Madison Paper Industries in the US amounting to EUR 8 million. At the end of 2015, there were no assets classified as held for sale.



Accounting policies

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell, if UPM will recover their carrying amount through a sale transaction which is considered highly probable. Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated after the classification.

NEXT TIME 26.4

IAS 1 Presentation of Financial Statements
IAS 40 Investment property