Financial Reporting Update 2022

Businesses are navigating their way into a post-covid world with a backdrop of significant global and local challenges along with ever increasing stakeholder expectations, such as sustainability and climate change commitments.

As businesses navigate these challenges, the impact on financial reporting continues to be complex. At PwC's 2022 Financial Reporting Update, we explored this complexity across four areas:

1. Current reporting trends and the issues we're seeing
2. Developments in accounting standards
3. IFRS Interpretations Committee updates
4. The impact of ESG on Financial Reporting

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Current reporting trends and the issues we're seeing

The areas we commonly see challenges are often accounting issues that don't necessarily come from changes in accounting standards, but are areas where it is hard to apply the existing requirements. Here is a reminder of those areas we covered along with other emerging issues and ASIC areas of focus:

1

Russian invasion of Ukraine

The Russian invasion of Ukraine and the international sanctions that have followed is clearly having a far-reaching economic impact, and therefore the possible accounting issues are broad. Read PwC's In Depth on this issue here

2

Reversal of an impairment

It is important to consider the requirements of AASB 136 Impairment of Assets before reversing an impairment previously recognised. An impairment of goodwill is not permitted to be reversed under any circumstances, and the passage of time on its own is not an indicator of a reversal of impairment.

3

Lease accounting in a post-COVID environment

With employees continuing to work from home, many companies are making decisions around the need for leased office space. It is important to reflect on the lease accounting in these circumstances including whether the lease term needs to be revisited, and whether right-of-use assets that will no longer be used in the business need to be tested for impairment on their own. For more details on COVID-19 related issues, read PwC's In Depth here.

4

Alternative debt instruments

As the use of alternative debt instruments continues to evolve, it is important to understand the nature of these arrangements when classifying liabilities between current and non-current. As a reminder an entity classifies a liability as current where either it is due within 12 months, it expects to settle the liability in its normal operating cycle, it is held primarily for trading or it does not have an unconditional right to defer the settlement for more than 12 months. Green loans are also increasingly popular and can also bring accounting complexity, read PwC's In Depth on ESG accounting issues here.

5

Special Purpose Acquisition Companies (SPACs)

SPACs continue to be a popular transaction structure as a way in which to take a company public. These types of structures bring many challenges including a number of financial reporting and accounting complexities that need to be considered. Read PwC's In Depth on this issue here.

6

Consideration vs remuneration in business combinations

As a reminder, where amounts paid in a business combination are forfeited if an individual does not provide a specified period of service to the company, these amounts will be recognised as a remuneration expense in the post-business combination accounts.

7

Common mistakes in remuneration reports

We continue to see a focus on remuneration reports from a number of stakeholders. As a reminder, the amounts disclosed should be presented in accordance with Australian Accounting Standards and not on a cash basis (e.g. for annual leave and long-service leave), and where KMPs leave and are considered good-leavers it is important to consider the acceleration of vesting of share-based payment awards.

8

Agent v Principal in the gig economy

Gig economy business models continue to grow in popularity. It is important to assess who is the agent or principal in revenue contracts where the business model is to connect service users with service providers.

9

ASIC areas of focus

ASIC continues to focus on asset values and going concern. In addition, we have seen a focus on the accounting for put-options over non-controlling interests and completeness of make-good provisions. The December 2021 ASIC areas of focus can be found here; watch out for the June areas of focus when it is released closer to the reporting season.

Developments in accounting standards

There are a number of changes or developments in accounting standards that are either here or on the horizon. These include the following areas that company's should be aware of:

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (and the Australian equivalent AASB 17) is applicable for periods commencing on or after 1 January 2023. All companies need to consider whether they are impacted by this new standard. Further information can be found in PwC's publication on IFRS 17 for non-insurers here.

Exposure drafts

There are a number of exposure drafts proposing changes or new accounting standards, including a proposed change to introduce additional disclosures for supplier finance agreements, and a new accounting standard for Regulatory Assets and Regulatory Liabilities.

Phase 2 IBOR reform reliefs

The IASB have issued certain reliefs to help simplify the accounting for the replacement of certain benchmark interest rates. Phase 2 of these reliefs are now effective. If you are impacted read PwC's practical guide here.

Removal of Special Purpose Financial Statements

The big change impacting many entities in Australia is the removal of special purpose financial statements. In addition to making additional disclosures, there is the complexities of preparing consolidated financial statements for the first time. Further information on can be found in PwC's publication here.

In addition to those areas highlighted during the webcast, it is also worth noting a recent change to the Property, Plant and Equipment accounting standard that prohibits an entity from deducting from the cost of an item of property, plant and equipment ('PP&E') any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Read PwC's In Depth here.

IFRS Interpretations Committee updates

The following four IFRIC agenda items are highlighted for organisations to consider as they move into the 30 June 2022 reporting season.

NRV of inventory

The IFRIC confirmed that when determining the net realisable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business. These costs are not limited to those that are only incremental.

Identifying leases in power purchase agreements (PPAs)

As PPAs increase in popularity as companies work towards their net zero commitments, it is important to note an agenda decision that confirmed that virtual PPAs (i.e. where there is not physical delivery of energy) would not be in the scope of AASB 16 as the customer does not receive substantially all of the economic benefits associated with the energy generating asset.

Configuration and customisation costs in cloud computing arrangements

Whilst many reporters will have already implemented this agenda decision, this is an area where finance teams cannot work in a silo. Having good lines of communication with other parts of the business is critical to understanding the arrangements and getting the accounting right. Read more on the details of this agenda decision here.

Recognition of cash with electronic payments

The IFRIC confirmed that where there are delays in processing payments through an electronic payment system, receivables should be derecognised and replaced with cash and cash equivalents when the 'contractual rights to the cash flows associated with the receivable expire'

Impact of ESG on Financial Reporting

ESG is one of the most important topics facing Australian companies across all industries today. It is a key topic on a number of stakeholders' agenda. In particular, the impact of climate change is an issue that investors and regulators are focusing on, including how the effect of climate change is reflected in the financial statements.

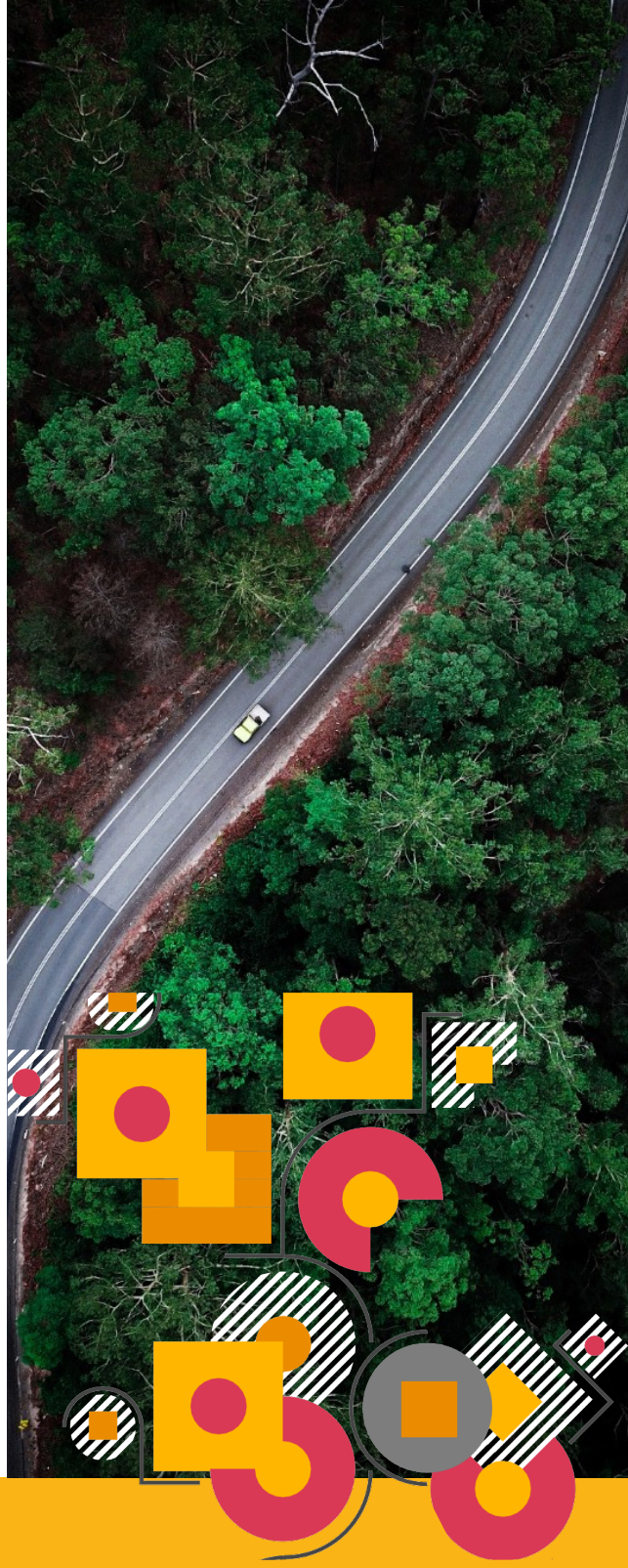
Depending on your business model, there are many places in the financial statements where an impact may arise. The IASB have published educational materials highlighting 11 accounting standards where you might need to think about climate risk in some way to ensure the accounts are materially correct. Before considering the accounting however, it is important to understand the impact of climate risk on your business. Some key questions to consider are:

- What is the level of climate risk faced by your company?
- What are your company's plans to address that risk?
- What commitments has your company already made to the market in this regard (e.g. net zero commitments)?

Once you have a good understanding of the risk faced by your company and the plans to address that risk, you can then consider how to reflect this in your financial statements. PwC's In Depth on this issue - here - explores this in more detail.

The non-financial reporting requirements related to ESG also continue to evolve. In the past year we have seen the IFRS Foundation establish the International Sustainability Standards Board (ISSB). The ISSB have now released exposure drafts of their first two standards. You can read PwC's In Brief on these exposure drafts here.

Regulators are also turning their mind to this issue too with the SEC recently proposing new rules which would significantly increase the disclosures about climate-related risks made by SEC registrants. See our publication here for details on these proposals, including what they mean for Australian entities.



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