

ANALYSIS OF PROPOSED CHANGES AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Abstract: *The analysis of changes in the International Financial Reporting Standards allows to organize correctly accounting for the enterprises which according to national legislations are obliged to keep accounting according to IFRS. In addition, these changes can take into account the rest of the enterprises of the Republic of Moldova, which keep records in accordance with the National Accounting Standards. This article analyzes the proposed changes in IFRS and examines the impact of these changes on the organization of accounting of the enterprise.*

Key words: *IFRS, amendments, IAS*

JEL: *M41*

INTRODUCTION

International Accounting Standards Board made traditional adjustments to his work plans at the June 2019 session. Below is information on IFRS which are presented for revision and additions or changes:

- ✓ Comprehensive Review of the IFRS for SMEs Standard,
- ✓ Accounting Policies and Accounting Estimates (Amendments to IAS 8),
- ✓ Amendments to IFRS 17 Insurance Contracts,
- ✓ Availability of a Refund (Amendments to IFRIC 14),
- ✓ Business Combinations under Common Control,
- ✓ Classification of Liabilities as Current or Non-current (Amendments to IAS 1),
- ✓ Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12),
- ✓ Test for Derecognition of Financial Liabilities (Amendments to IFRS 9),
- ✓ Financial Instruments with Characteristics of Equity,
- ✓ IBOR Reform and its Effects on Financial Reporting,
- ✓ Goodwill and Impairment,
- ✓ Lease Incentives (Amendment to Illustrative Example 13 accompanying IFRS 16),
- ✓ Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37),
- ✓ Primary Financial Statements,
- ✓ Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16),
- ✓ Subsidiary as a First-time Adopter (Amendments to IFRS 1),
- ✓ Taxation in Fair Value Measurements (Amendments to IAS 41),
- ✓ Updating a Reference to the Conceptual Framework (Amendments to IFRS 3).

MATERIAL AND METHOD

It should be noted that the Board is considering a change in IFRS for SMEs aligning the guidance on fair value measurement in the IFRS for SMEs Standard with IFRS 13 "Fair Value Measurement" so the fair value hierarchy incorporates the principles of the IFRS 13 "Fair Value Measurement" fair value hierarchy.

According to the author, the use of fair market value for small enterprises is premature. This is primarily related to the principle of prudence and the presentation of information on historical cost in financial statements of SMEs.

The International Accounting Standards Board tentatively decided to propose amending IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" to lower the impracticability threshold regarding retrospective application of voluntary changes in accounting policies that result from agenda decisions.

The proposed threshold would include a consideration of the costs and benefits of applying such changes retrospectively. If the change in accounting policy results from an agenda decision, to the extent that the cost to the entity of determining either the period-specific effects or the cumulative effect of the change exceeds the expected benefits to users. This decision is justified, as the application of retrospective accounting policies is quite difficult and taking into account the materiality threshold can lead to an improvement in the organization of accounting in the enterprise.

The International Accounting Standards Board also decided to develop various guidelines and examples for the IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" to help entities apply materiality judgements to accounting policy disclosure. To support this amendment the International Accounting Standards Board is also developing guidance and examples to explain the application of the 'four-step materiality process' described in IFRS Practice Statement.

RESULTS AND DISCUSSIONS

The International Accounting Standards Board offers the following definition: "information is material if omitting, misstating or obscuring it could reasonably be expected the primary specific reporting entity's general purpose financial statements make on the basis of those financial statements.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements. Material information might be obscured if it is not communicated clearly—for example, if it is obscured by immaterial information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users".

IFRS 17 "Insurance Contracts" was issued by the Board on 18 May 2017. But already now there are many questions on its correct application. The International Accounting Standards Board therefore decided to clarify the application of the standard.

Herewith the International Accounting Standards Board that amendments would be justified if those amendments would:

- ✓ *not change the fundamental principles of the Standard 17 "Insurance Contracts" resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17 as originally issued;*
- ✓ *avoid unduly disrupting implementation already under way or risk undue delays in the effective date of IFRS 17 "Insurance Contracts".*

Amendments to IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" related to that fact that in some circumstances, a company with a defined benefit plan can recognise an asset if the plan has a surplus. The recognition and measurement of that asset depends on whether any economic benefits from the plan are available to the company.

In this regard the International Accounting Standards Board sets a goal to clarify that changes in the effect of the asset ceiling are recognised in other comprehensive income as required by IAS

19 "Employee Benefits", as a result of the reassessment of the asset ceiling based on the updated surplus, which is itself determined after the recognition of the past service cost or the gain or loss on settlement.

Changes should answer the following questions:

- ✓ when the net defined benefit liability or asset is remeasured in accordance with paragraph IAS 19 "Employee Benefits":
 - the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement;
 - an entity determines the net interest after the remeasurement based on the remeasured net defined benefit liability (asset).
- ✓ the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by or included in, the past service cost or the gain or loss on settlement.

IFRSs do not clarify how to account for combinations of companies or businesses controlled by the same party. And as a result, many enterprises reflect these operations in accounting in different ways, which makes it difficult for investors and regulators to compare the effects of those transactions on companies' financial positions and performances.

Thus it is necessary to develop requirements that would improve the comparability and transparency of accounting for combinations under common control to help investors compare the financial information that companies provide in financial statements.

Another important clarification of the IAS 1 "Presentation of Financial Statements" standard concerns to clarify the requirements for classifying liabilities with equity-settlement features by:

- the situations in which an obligation to transfer the entity's own equity instruments influences the classification of a liability:
 - when a convertible bond or similar financial instrument includes a holder conversion option recognised separately as an equity component of a compound financial instrument, the terms of the equity component do not influence whether the entity classifies the liability component as current or non-current;
 - when an obligation to transfer the entity's own equity instruments is recognised as a liability because it does not meet the definition of an equity instrument, the transfer of the entity's own equity instruments is regarded as settlement of that liability for the purpose of classifying it as current or non-current.
- clarifying that the existing references to equity instruments are to the entity's own equity instruments.
- aligning the terminology.

Another change is related to the IAS 12 "Income Taxes", which are related to the exemptions which would no longer apply to the extent that, on the initial recognition of a transaction, an entity would recognise equal amounts of deferred tax assets and liabilities.

In this connection the International Accounting Standards Board requires entities to apply the proposed amendments retrospectively applying IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". However, earlier applying of changes in the IAS 12 "Income Taxes" sare welcome.

Another important innovation is the fact that the International Accounting Standards Board decided to develop an accounting model that will provide users of financial statements with better information about a company's dynamic risk management (DRM) activities and how it manages those activities.

In such cases it was discussed whether the DRM model should interfere an entity from designating specific types of strategies within the target profile,:

- ✓ the DRM model should not permit negative balances to be defined within the target profile,
- ✓ when changes in risk management strategy are frequent, an entity should discontinue the DRM model prospectively,
- ✓ an entity's risk management strategy should be clearly documented with the time horizon specified. If a strategy is defined in a way that is contingent on future events, the occurrence of those contingent events should be treated as a change in strategy.

Important question also concerns derivatives, namely, should they be presented in the financial statements. The board finally decided that:

- ✓ the DRM model should not require presentation of the designated derivatives in a separate line item on the face of the statement of financial position; but this information should be clearly communicated to users in the notes to the financial statements.
- ✓ the DRM model should not require presentation of changes in fair value of designated derivatives in a separate line item in other comprehensive income; but this information should be clearly communicated to users in the notes to the financial statements.

The International Accounting Standards Board is also considering the possibility to start a project to develop proposals to replace IFRS 6 "Exploration for and Evaluation of Mineral Resources".

Extractive activities consist of many stages, such as: exploring, evaluating, developing and producing natural resources such as minerals, oil and gas. This activity is important globally and is particularly significant in some countries. Companies use various accounting models to report the resources and expenditures associated with these activities. The resulting diversity in financial information hinders investors from understanding the financial position and financial performance of those companies.

IFRS 6 "Exploration for and Evaluation of Mineral Resources" was issued in 2004. The Standard has allowed companies adopting IFRS Standards to continue to apply some aspects of their existing accounting policies for exploration and evaluation expenditures until the Board reviews the accounting practices of companies engaged in extractive activities.

During the 2010 the International Accounting Standards Board studied the regulatory framework in the field of accounting for mining in such countries as: Australia, Canada, Norway and South Africa. The research focused on:

- how to estimate and classify quantities of minerals or oil and gas (the reserves and resources) discovered;
- how to account for the reserves and resources, as well as for the associated expenditure; and
- what information to disclose about extractive activities.

CONCLUSIONS

In 2019 the Board has decided to start a new research project on extractive activities. This research project aims to gather evidence to help the Board decide whether to start a project to develop proposals on accounting requirements that would amend or replace IFRS 6 "Exploration for and Evaluation of Mineral Resources".

It should also be noted that the International Accounting Standards Board approved a project to its agenda to revise and update the IFRS Practice Statement 1 "Management Commentary (Practice Statement)" issued in 2010.

Management commentary complements the financial statements by providing other financial information—insight into the company's strategy for creating business value over time and its progress in implementing its strategy. Management commentary also sets out the potential impact the company's strategy will have on financial performance, which may not have yet been captured by the financial statements.

Investors can use this other financial information to inform their economic decisions. Without this information:

- investors cannot gauge whether management teams prioritise short-term financial targets over long-term value creation not recognised in the financial statements; and
- investment capital may be diverted from companies pursuing a long-term strategy in favour of those prioritising short-term earnings.

The update to the IFRS Practice Statement 1 Management Commentary will include consideration of:

- developments from other narrative reporting initiatives—for example, the principle of focusing on business-critical resources and long-term value creation; and
- acknowledged gaps in narrative reporting practice indicating that the goals of the Management Commentary and other narrative reporting regimes are unmet. For example, the International Integrated Reporting Council in its recent review has acknowledged the need to revisit its guidance on reporting on the 'resources and relationships' that companies use to 'create value'. Other narrative reporting gaps include challenges in reporting forward-looking information, inconsistent reporting on business models, and short-term reporting on strategies. Stronger guidance, while still maintaining the principle-based approach of the original Management Commentary Practice Statement should help to close the gaps in narrative reporting practices.

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