KPMG Accounting newsletter Q3 2023

November 2023
KPMG Lower Gulf

Foreword

In this edition of the accounting newsletter, we bring to you the key updates for the period of June to September 2023. A major milestone event occurred during this time - the publication of the first two IFRS Sustainability Disclosure Standards. Additionally, as companies prepare for their 2023 reporting, make sure to refer to the latest versions of KPMG Illustrative financial statements and KPMG Insights into IFRS which have now been released.

Aram Asatryan

Head of IFRS Technical Desk
KPMG Lower Gulf, Saudi Levant
and Caspian Region
E: aasatryan1@kpmg.com

Content

Financial reporting

Disclosure of supplier finance arrangements

In response to investors' calls for more transparency around the impact of supplier finance arrangements on the financial statements, the International Accounting Standards Board (IASB) has amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The amendments introduce additional disclosure requirements for companies that enter these arrangements. However, they do not address the classification and presentation of the related liabilities and cash flows.

The amendments are effective for periods beginning on or after 1 January 2024, with earlier application permitted. However, some relief from providing certain information in the year of initial application is available.

Click here to read more.

Lack of exchangeability - Amendments to IAS 21

Under IAS 21 The Effects of Changes in Foreign Exchange Rates, a company uses a spot exchange rate when translating a foreign currency transaction.

In some jurisdictions where currencies cannot be exchanged, there is no spot rate available. This can have a significant accounting impact for companies affected.

In August 2023, the International Accounting Standards Board (IASB) amended IAS 21 to clarify:

- When a currency is exchangeable into another currency, and
- How a company determines an estimated spot rate when a currency lacks exchangeability

These amendments apply for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted.

Click here to read more.

KPMG IFRS publication: Your essential year-end guide

Our 2023 guides to annual financial statements are now available. They comprise illustrative disclosures and a disclosure checklist.

These updated guides reflect standards in issue at 31 August 2023 that are required to be applied by a company with an annual reporting period beginning on 1 January 2023.

They illustrate amendments particularly related to:

- IAS 12 *Income Taxes* relating to the initial recognition exemption and Pillar Two top-up taxes; and
- IAS 1 Presentation of Financial Statements relating to disclosure of material rather than significant accounting policies. Please also refer to our high-level visual guide for further guidance.

Click here to read more.

KPMG IFRS publication: Insights into IFRS®

The world around us is rapidly changing. This has entailed prompt responses from companies to significant shifts in the market, such as inflation, natural disasters, a global pandemic, geopolitical events, and climate-related concerns. Companies are reshaping their strategies to align with this evolving landscape and their stakeholders are keen to understand the story that emerges from each company's journey.

The story of how these changes impact a company's affairs is told in the annual report – the primary tool for communicating with stakeholders. Insights into IFRS is here to help. Now in its 20th edition, it continues to provide valuable, up-to-date guidance on the key aspects of financial reporting, including all the latest developments.

Click here to read more.

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Sustainability reporting

New International Sustainability Standards Board (ISSB) Standards

The publication of the first two IFRS® Sustainability Disclosure Standards - IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, is a key milestone in the International Sustainability Standards Board (ISSB)'s vision – to create a global baseline of investor-focused sustainability reporting that local jurisdictions can build on.

Adopting these standards will signify an important change in status, as they will increase the prominence and connectivity of sustainability reporting within the main financial filings. It is important to engage now to understand what this new global baseline will look like and to assess how your company needs to adapt.

Read our web article to get introduced to the standards, in addition to our First Impressions publication for more insight on their key impacts including illustrative examples and guidance on how companies can apply them.

For more information, please visit our sustainability reporting page, providing a high-level overview of 10 key questions that can help you in your preparations.

Net-zero commitments

Many companies have made net-zero commitments, which has led to questions emerging around their impact on financial reporting under IFRS® Accounting Standards – particularly relating to when they may trigger a liability. With no specific accounting standard to apply, assessing its plan to meet these commitments and using a three-step approach will help a company determine the accounting impacts and whether it needs to recognize a liability.

Given users of financial statements, regulators and the general public are paying more attention to companies' net-zero commitments, companies need to:

- Understand the financial reporting impacts of net-zero commitments, often dependent on the detail in the supporting action plan
- Tell a connected story and explain which planned actions trigger a liability at the reporting date
- Monitor standard-setting developments

Click here to read more.

Accounting for carbon credits

Companies around the world are taking action to reduce their carbon emissions. Some are subject to mandatory government schemes (e.g. cap and trade schemes). Nevertheless, many are now purchasing carbon credits or offsets voluntarily. While terminology may vary, these carbon credits typically represent a reduction in or removal of emissions (e.g. CO_2 or greenhouse gases). This can be achieved through a certified offsetting project such as tree planting. These credits are often listed with a registry authority and the company may be able to trade or sell them to a third party before they are retired.

There is currently no specific guidance in IFRS® Accounting Standards on accounting for the purchase of carbon credits. Therefore, companies should carefully assess the specific facts and circumstances when determining the appropriate accounting. The nature of the arrangement and the business purpose for purchasing the credits often drives the accounting, including which IFRS accounting standard is applicable.

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Publication name: KPMG Accounting newsletter Q3 2023

Publication number: 4917

Publication date: October 2023