Accounting Newsletter

Issue 2015/04

Quarterly publication of KPMG in Poland

This quarterly *Accounting Newsletter* presents selected recent changes in International Financial Reporting Standards (IFRS), Polish accounting principles (including the Accounting Act and National Accounting Standards) and related topics that may be relevant to a significant number of entities operating in Poland. The publication can assist you in staying up to date with evolving application guidance and new regulatory developments concerning those standards.

Table of contents:

Effective dates of IFRSs

New IFRS standards, amendments and interpretations

New Polish regulations

Regulatory activities

Our recent publications

Table of contents:

1

Effective dates of IFRSs

Effective dates – at a glance ... 3

Status of IFRS endorsement by the European Union (EU) ... 4

2

New IFRS standards, amendments and interpretations

Uncertainty over Income Tax Treatments ... 6

Foreign Currency Transactions and Advance Consideration ... 6

3

New Polish regulations

Amended National Accounting Standard no. 7 ... 7

4

Regulatory activities

Improving the quality of financial statement disclosures – ESMA Public Statement ... 8

ESMA communicates its enforcement priorities for European national regulators ... 8

5

Our recent publications

Guide to annual financial statements – Illustrative disclosures for investment funds (December 2015) ... 9

Guide to annual financial statements – IFRS 15 supplement (November 2015) ... 9

IFRS: New standards – are you ready? (December 2015) ... 9

IFRS compared to US GAAP (December 2015) ... 9

Fair value measurement: Questions and Answers (December 2015) ... 10

Evolving Banking Regulation Part Four ... 10

IFRS Newsletters ... 10

Effective dates – at a glance

The following is a list of recently published standards, amendments and interpretations of standards that need to be considered, and the status of their endorsement by the European Union as at 31 December 2015:

Effective date	Standard	Endorsed by EU?
1 January 2014	IFRIC Interpretation 21 Levies	Yes [a]
1 July 2014	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	Yes [c]
	Annual Improvements to IFRSs 2010–2012 Cycle	Yes [c]
	Annual Improvements to IFRSs 2011–2013 Cycle	Yes [b]
1 January 2016	IFRS 14 Regulatory Deferral Accounts	No [d]
	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	Yes
	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	Yes
	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	Yes
	Equity Method in Separate Financial Statements (Amendments to IAS 27)	Yes
	Annual Improvements to IFRSs 2012–2014 Cycle	Yes
	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	No
	Disclosure Initiative (Amendments to IAS 1)	Yes
1 January 2018	IFRS 15 Revenue from Contracts with Customers, including amendments to IFRS 15: Effective date of IFRS 15	No
	IFRS 9 Financial Instruments (2014)	No
Deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	No

[a] *Each company applying IFRS as adopted by the European Union (IFRS EU) shall apply IFRIC 21 from the commencement date of its first financial year beginning on or after* ***17 June 2014****.*

[b] *Each company applying IFRS EU shall apply amendments resulting from Annual Improvements to IFRSs 2011-2013 Cycle from the commencement date of its first financial year beginning on or after* ***1 January 2015****.*

[c] *Each company applying IFRS EU shall apply amendments resulting from Annual Improvements to IFRSs 2010-2012 Cycle and Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) from the commencement date of its first financial year beginning on or after* ***1 February 2015****.*

[d] *The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.*

Status of IFRS endorsement by the European Union (EU)

During the period from 1 October 2015 through 31 December 2015, the EU endorsed the following standards and amendments to standards:

(i) Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value and the previously held interests in the joint operation will not be remeasured. In addition, the joint operator shall disclose the information required by IFRS 3 and other IFRSs for business combinations.

Go to: In the Headlines: Business combination accounting for interests in a joint operation (2014/07) (May 2014)

(ii) Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

Go to: In the Headlines: Restricting the use of revenue-based amortisation (2014/08) (May 2014)

(iii) Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)

Pursuant to the amendments, bearer plants shall be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. The produce growing on bearer plants will remain within the scope of IAS 41.

Go to: Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) – Project Summary and Feedback Statement (IASB)

(iv) Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow equity accounting for investments – not only in associates and joint ventures, but also in subsidiaries. The amendments may lead to more companies applying IFRS in their separate financial statements, however, the introduction of equity accounting as an option is also likely to increase diversity in reporting practice.

Go to: In the Headlines: Equity method in separate financial statements (2014/14) (August 2014)

(v) Annual Improvements to IFRS 2012-2014 Cycle

The IASB's annual improvements provide a streamlined process for dealing efficiency with a collection of non-urgent amendments to IFRS. This cycle of improvements contains amendments to the following four standards and specific issues:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - Changes in method of disposal
- IFRS 7 Financial Instruments: Disclosures
  - 'Continuing involvement' for servicing contracts
  - Offsetting disclosures in condensed interim financial statements
- IAS 19 Employee Benefits
  - Discount rate in a regional market sharing the same currency – e.g. the eurozone
- IAS 34 Interim Financial Reporting
  - Disclosure of information 'elsewhere in the interim financial report'.

Go to: IFRS Newsletter: Balancing Items (7/2014)

(vi) Amendments to IAS 1: Disclosure Initiative

These clarifications to IAS 1 are a step in a bigger 'disclosure initiative', which aims to improve presentation and disclosures in IFRS financial reporting. Key clarifications include the following items:

- An emphasis on materiality. Specific single disclosures that are not material do not have to be presented – even if they are a minimum requirement of a standard.
- The order of notes to the financial statements is not prescribed. Instead, companies can chose their own order, and can also combine, for example, accounting policies with notes on related subjects.
- It had been made explicit that companies:
  - should disaggregate line items on the balance sheet and in the statement of profit or loss and other comprehensive income (OCI) if this provides helpful information to users; and
  - can aggregate line items on the balance sheet if the line items specified by IAS 1 are immaterial.
- Specific criteria are provided for presenting subtotals on the balance sheet and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI.
- The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows IAS 1's approach of splitting items that may, or that will never, be reclassified to profit or loss.

Go to: IFRS Breaking News: Making financial statements more relevant (January 2015)

Go to: IFRS Breaking News: Proposed disclosures on financing activities and liquidity (January 2015)

Go to: EFRAG Endorsement Status Report

While no new standards, amendments to standards or interpretations were issued in the period from 1 October 2015 through 31 December 2015, we would like to draw your attention to two draft Interpretations of Standards published for public comment by the IFRS Interpretations Committee on 21 October 2015. The comment period for both of the proposed IFRIC Interpretations closed on 19 January 2016 and they are expected to be finalized during 2016.

Uncertainty over Income Tax Treatments

The proposed interpretation's aim is to address the long-standing diversity in practice regarding the accounting for uncertainty over income tax treatments. Although IAS 12 *Income Taxes* does provide requirements on the recognition and measurement of current or deferred tax liabilities or assets it does not explicitly address the accounting for uncertain tax positions.

It is sometimes unclear how tax law applies to a particular transaction or circumstance. So how do you decide what to put in your financial statements if you're uncertain about a tax treatment that you've chosen in your tax return? The key test is whether it's probable that the tax authority will accept the company's chosen tax treatment. If yes, the amount in the financial statements will be the same as in the tax return. If not – the uncertainty would be reflected using the measure that provides a better prediction of how the uncertainty will be resolved – either the most likely amount, or the expected value. Key to the proposals is the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment.

The proposals also provide specific guidance for when and how to subsequently update the uncertain tax in the accounts if circumstances change – e.g. when a tax authority's right to challenge a treatment expires, or when a clarification is issued.

Go to: Accounting for uncertain tax treatments (October 2015)

Go to: Draft IFRIC Interpretation: Uncertainty over Income Tax Treatments (October 2015)

Foreign Currency Transactions and Advance Consideration

For foreign currency transactions involving an advance payment or receipt, current IFRS is unclear as to which date should be used for translation. Currently, foreign currency transactions are recorded in the company's functional currency by applying the spot exchange rate on the date of the transaction – i.e. on the date when the transaction first qualifies for recognition.

However, when foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 *The Effects of Changes in Foreign Exchange Rates* is not clear on how to determine the date of the transaction. This has resulted in diversity in practice when translating the related item. To address this, the IFRS Interpretations Committee has issued a draft interpretation.

The proposed interpretation would apply in specific circumstances involving an advance foreign currency payment or receipt. The date of the transaction – which is required to determine the spot exchange rate for translation – would be the earlier of:

- the date of initial recognition of the non-monetary prepayment asset or deferred income liability, and
- the date that the related item is recognized in the financial statements.

If the transaction is recognized in stages, then a transaction date would be established for each stage. The spot exchange rate for each date would be applied to translate each part of the transaction.

Go to: Foreign currency transactions – Advance consideration (October 2015)

Go to: Draft IFRIC Interpretation: Foreign Currency Transactions and Advance Consideration (October 2015)

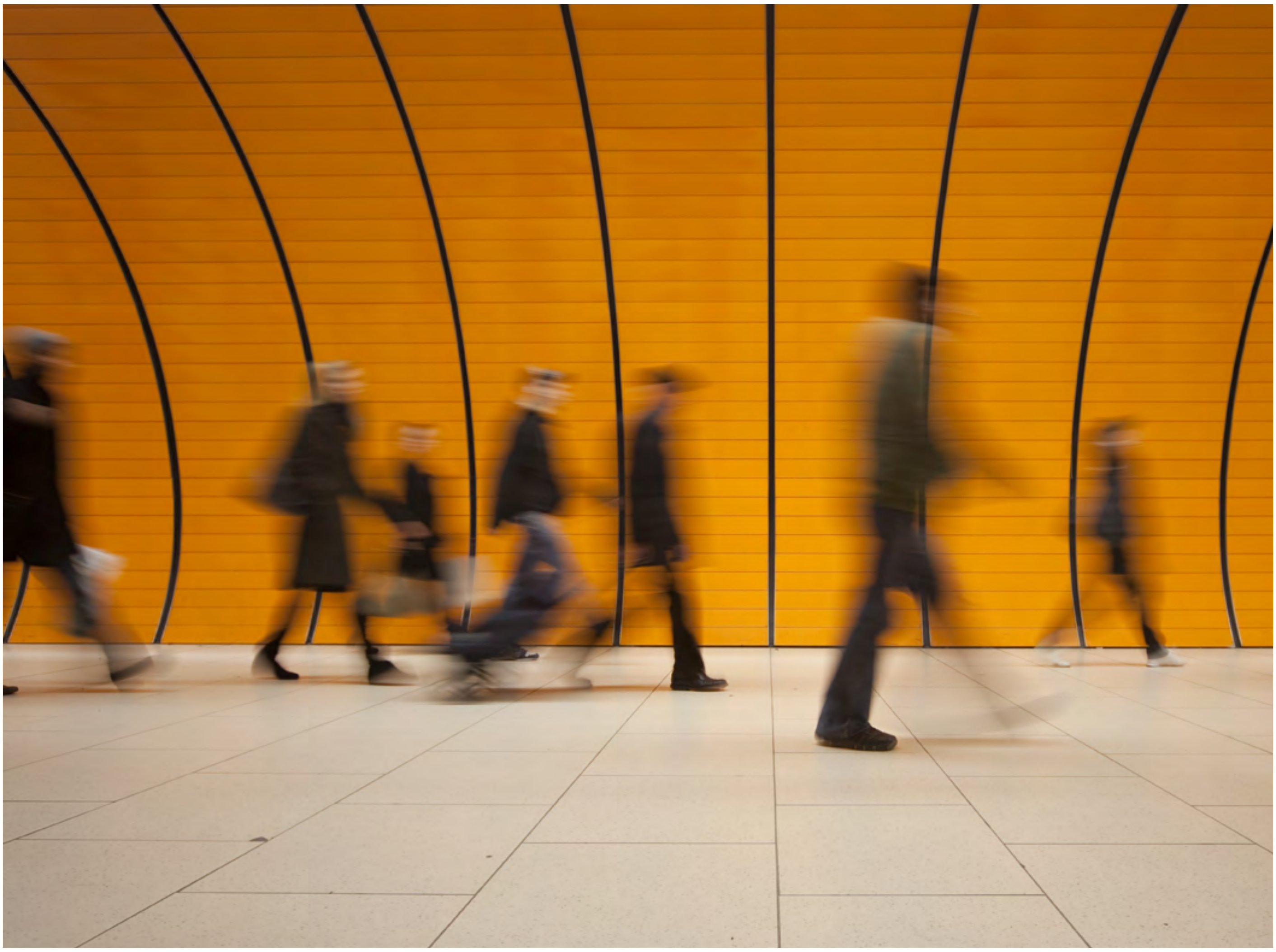
Amended National Accounting Standard no. 7

The Polish Accounting Standards Committee resolved on 15 December 2015 to amend National Accounting Standard no. 7 „Changes of accounting policies, estimates, adjustments of errors and events after the reporting date – recognition and presentation" (NAS 7).

The amendments aim to align NAS 7 with the Accounting Act as amended in 2015 (refer to our Accounting Newsletter, issue 3/2015, for further details). Accordingly, the changes to NAS 7 broaden the range of entities allowed to apply the tax basis of accounting for leases, not to account for deferred taxes, and not to follow the requirements of the decree of the Ministry of Finance dated 12 December 2001 on specified principles for the recognition, measurement, disclosure and presentation of financial instruments in the financial statements.

The amended NAS 7 is applicable for financial statements for periods beginning on or after 1 January 2016, with early application permitted.

Go to: Amended National Accounting Standard no. 7 (in Polish)



Improving the quality of financial statement disclosures – ESMA Public Statement

The European regulator, the European Securities and Markets Authority (ESMA), has issued a statement encouraging companies to improve the quality of financial statement disclosures. ESMA acknowledges different viewpoints of preparers and users on perceived disclosure overload, but remains concerned that too often companies provide disclosures that lack clarity, are not sufficiently relevant, or are just boilerplate. ESMA emphasises that improving disclosures is a continuous process and urges all parties involved – including preparers, auditors and regulators – to play an active role.

With this in mind, ESMA has developed five key disclosure principles that companies are encouraged to consider when deciding what to disclose in their financial statements:

- Tell the company's own story by focusing on company-specific disclosures and avoiding boilerplate language.
- Provide relevant information in an easily accessible way, helping users to understand the company's financial performance and position.
- Think about materiality – applying the IFRS materiality principle and focusing on relevant information.
- Promote readability by presenting financial statement information in a clear and concise way, using cross-references and ensuring that material information is not obscured by less relevant information.
- Provide consistent information within annual reports – ensuring that disclosures in the financial statements are aligned with information presented elsewhere in the report.

European national regulators will monitor and discuss companies' progress in improving the quality of disclosures, and reflect on their enforcement practices.

Go to: Disclosures – Regulator says quality, not quantity, is key (November 2015)

Go to: ESMA Public Statement – Improving the quality of disclosures in the financial statements (October 2015)

ESMA communicates its enforcement priorities for European national regulators

In October 2015, ESMA also issued its annual statement highlighting the areas of focus for European national regulators when reviewing IFRS financial statements of issuers for the year ended 31 December 2015.

These focus areas include the way current financial market conditions affect the financial statements, as well as some recurring issues identified when IFRS requirements are applied – in particular, those on statements of cash flows and fair value measurement, as well as related disclosures. ESMA has urged companies to consider the impact of new standards on their financial statements – in particular IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, as these could have a significant impact. Companies are reminded of the requirement to provide information enabling users to assess the impact that those new standards will have on their financial statements. The statement also encourages companies to prepare for implementation, so that their reporting procedures and systems are ready when the new requirements become mandatory.

Listed companies and their auditors should continue to pay attention to the enforcement priorities published by ESMA in previous years, which remain relevant. Although the topics included in the statement are those deemed to be most relevant at a European level, regulatory bodies outside of Europe are also likely to pay particular attention to the same topics.

Go to: Regulation – ESMA enforcement priorities for 2015 (November 2015)

Go to: ESMA Public Statement – European common enforcement priorities for 2015 financial statements (October 2015)

Guide to annual financial statements – Illustrative disclosures for investment funds (December 2015)

Our *Guides to financial statements*, produced by the KPMG International Standards Group ('KPMG ISG'), help entities to prepare their financial statements in accordance with IFRS. The *Illustrative disclosures for investment funds* illustrates one possible format for financial statements prepared under IFRS, based on a fictitious tax-exempt open-ended single-fund investment company, which does not form part of a consolidated entity or hold investments in any subsidiaries, associates or joint ventures. The guide reflects standards and interpretations that have been issued by the IASB as at 15 December 2015 and that are required to be applied by an entity with an annual reporting period beginning on 1 January 2015.

Go to: Guide to annual financial statements – Illustrative disclosures for investment funds (December 2015)

Guide to annual financial statements – IFRS 15 supplement (November 2015)

The supplement focuses on the disclosure requirements in IFRS 15 *Revenue from Contracts with Customers*, which are due to become effective for annual periods beginning on or after 1 January 2018. It provides IFRS 15 disclosure examples and explanations as a supplement to our *Guide to annual financial statements – Illustrative disclosures* issued in September 2015.

Go to: Guide to annual financial statements – IFRS 15 supplement (November 2015)

IFRS: New standards – are you ready? (December 2015)

Each quarter, we provide a summary of newly effective and forthcoming standards. This edition covers financial years ending on or after 31 December 2015, including interim periods within those financial years.

Go to: IFRS: New standards – are you ready? (December 2015)

IFRS compared to US GAAP (December 2015)

Both IFRS and US GAAP will continue for the foreseeable future as the primary reporting frameworks in use around the world and understanding the differences between the two will continue to be of keen interest to preparers and users of financial statements. With this in mind, KPMG published its 2015 edition of *IFRS compared to US GAAP*, a publication from which the below-linked overview has been extracted.

Go to: IFRS compared to US GAAP (December 2015)

Fair value measurement: Questions and Answers (December 2015)

This edition of the publication provides questions and answers on fair value measurement under both U.S. GAAP and IFRS. ASC Topic 820 and IFRS 13 define fair value, establish framework for measuring fair value and a fair value hierarchy based on the source of the inputs used to estimate fair value, and require disclosures about fair value measurements. While the above two standards are substantially converged, thus minimizing the differences between U.S. GAAP and IFRS, some differences arise due to the interaction of this guidance with other standards.

Go to: Fair value measurement: Questions and Answers (December 2015)

Evolving Banking Regulation Part Four

The publication is the fourth part of the Evolving Banking Regulation series for 2015. The publication examines the governance challenges facing banks. In this part of the series, the focus is on how to meet the expectations of regulators and supervisors while addressing the commercial advantages of good governance. Elements such as culture, values, supervisory assessment and the suitability and accountability of board members and senior management are also reviewed.

Go to: Evolving Banking Regulation Part Four

IFRS Newsletters

We also recommend the following selected IFRS-related newsletters recently issued by KPMG's International Standards Group:

- **IFRS Newsletter: Leases – issue 18** provides an overview of the IASB discussions of the leases project in October 2015. In its final public meeting on the project, the IASB decided that IFRS 16 *Leases* will be effective for accounting periods beginning on or after 1 January 2019.

Go to: IFRS Newsletter: Leases – issue 18

- **IFRS Newsletter: IFRS 9 Impairment – issue 3.** The new expected credit loss model for the impairment of financial instruments represents a fundamental change to current practice. To help stakeholders with implementation issues, the IASB has established the IFRS Transition Resource Group for Impairment of Financial Instruments (the 'ITG'). This third issue of IFRS Newsletter: IFRS 9 Impairment highlights the ITG's discussions on the impairment requirements of IFRS 9 in December 2015.

Go to: IFRS Newsletter: IFRS 9 Impairment – issue 3

- **IFRS Newsletter: Insurance – issues 49 and 50** highlight further discussions on the insurance contracts projects held by the IASB in October and November 2015. In the meetings, the Board considered criteria for certain transition reliefs and restatements of comparative information, presentation and disclosure requirements for insurance contracts, and also evaluated the differences between the general measurement model and the variable fee approach.

Go to: IFRS Newsletter: Insurance – issue 49

Go to: IFRS Newsletter: Insurance – issue 50

- **IFRS Newsletter: Financial Instruments – issue 27** highlights the IASB's discussions in October 2015 on its project on financial instruments with characteristics of equity. During the meeting, the Board focused on the classification of derivatives on 'own equity'. It discussed the challenges of accounting for such instruments and how IAS 32 requirements deal with those challenges.

Go to: IFRS newsletter: Financial Instruments – issue 27

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