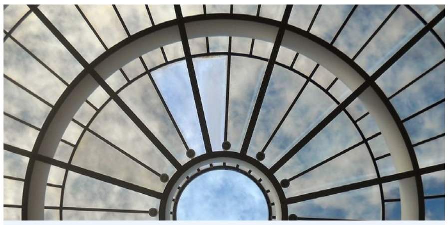
CCS
Complete Corporate Services Pte Ltd

MOORE

Financial Reporting Seminar 2019

20 September 2019

Event Recap



Event Recap

Moore Stephens LLP-CCS Financial Reporting Seminar 2019

Companies need to be aware of and comply with financial reporting guidance being increasingly developed and released through alternative channels, such as the IFRS Interpretations Committee ("IFRIC") Agenda Decisions. Although such guidance is not technically part of the formal financial reporting pronouncements, they should nevertheless be regarded as authoritative since these represent the views of the global standard setters. This is according to speakers at the 2019 Moore Stephens-CCS Financial Reporting Seminar.

The seminar, held at Suntec City Convention Centre on 20 September 2019, was attended by more than 200 participants including Company Directors, Chief Financial Officers, and Finance Executives. The seminar was led by financial reporting and taxation specialists from Moore Stephens LLP, and distinguished guest speaker Dr Pearl Tan, Associate Professor (Education) in Accounting at the Singapore Management University.

#SFRS2019

UPDATES AND PITFALLS IN NEW ACCOUNTING RULES FOR REVENUE AND FINANCIAL INSTRUMENTS

"In March 2019, IFRIC issued an agenda decision, opining that borrowing costs on pre-sold semi-constructed condominiums should not be capitalised for both sold and unsold units where the revenue is recognised over time. …"

Mr Neo Keng Jin, Senior Partner and Head, Audit, Assurance and Advisory at Moore Stephens LLP, Singapore, kicked off the seminar with an overview on the status of IASB projects

The seminar kick-started with an introduction by Mr. Neo Keng Jin, Head of Audit, Assurance and Advisory at Moore Stephens LLP, who gave an overview on the status of financial reporting projects by the International Accounting Standards Board (IASB). Mr. Neo noted that other than leases and insurance, there are no other "big bang" projects at this stage which are on the agenda of IASB.

After the introduction, the seminar moved on to a discussion of updates and pitfalls relating to the new rules in IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, that took effect in 2018. According to Mr Wong Koon Min, Partner and Head of Technical, Compliance and Financial Services at Moore Stephens LLP, global regulators have started to articulate their expectations relating to application of measurement and disclosure requirements in both IFRS 9 and IFRS 15. The pace is expected to pick up as the year progresses and more regulators around the world complete their review of the first-year application of these requirements. At the same time, IFRIC has been issuing guidance on the application of these requirements in the form of Agenda Decisions, some of which have come as a surprise to companies, even as they issued their annual reports for the year.

One such requirement is the capitalisation of borrowing costs on pre-sold semi-constructed condominiums or other similar strata-titled developments. In March 2019, IFRIC issued an agenda decision, opining that borrowing costs on such developments should not be capitalised for both sold and unsold units where revenue is recognised over time. IFRIC did not specify any effective date for the decision, as it was deemed to be based on previously-effected professional pronouncements. Instead, IFRIC left to national regulators the job of aligning agenda decisions to existing practice, including any transition mechanisms deemed to be required. In Singapore, the Institute of Singapore Chartered Accountants has issued guidance in the form of a "Tech-Bite", setting forth its view that for the decision on borrowing costs, the transition deadline is 31 December 2019.

IFRIC also issued an agenda decision in June 2019, on costs incurred for work-in-progress assets where revenue has been partly-recognised. IFRIC confirmed its view that such costs are ineligible for capitalisation, except payments for inventory, plant and equipment, or assets specified in other pronouncements. Some of these ineligible costs qualified to be included in work-in-progress revenue assets prior to IFRS 15. Without this mechanism (i.e. capitalisation) to streamline cost and profit volatility, margins on work-in-progress may become more volatile under IFRS 15.

Mr Wong Koon Min, Audit Partner and Head, Technical, Compliance and Financial Services at Moore Stephens LLP, Singapore on updates and pitfalls relating to the new rules in IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

COMPLEXITIES IN NEW LEASE ACCOUNTING RULES

> "Despite the common perception that the new lease guidance does not affect lessors, this is not always the case. In the case of sub-leases… it is now more likely under the new rules that the sub-lease will be accounted for as a finance lease for accounting purposes.…"

Guest Speaker, Dr Pearl Tan, Associate Professor (Education) in Accounting at the Singapore Management University (SMU) on special issues in lease accounting

Thereafter, Dr Tan, took the stage to provide more insight on areas of complexities relating to the new paradigm on lease accounting that takes effect in 2019. According to Dr Tan, these include the areas of accounting for uncertainties in the lease, sub-leases and sale and leaseback arrangements.

Uncertainties in the lease arrangement include lease payments that are contingent on future variables. An example is found in the retail industry where store rentals are sometimes determined by the lessees' sales. The accounting for such arrangements will vary depending on the nature of the future variables on which lease payments are based, for example, whether they are market indices or rates. Uncertainties also include the exercise of lease renewal and purchase options which will affect the expected term of the lease. Dr Tan explained the detailed considerations involved, highlighted their applications in real-life scenarios including common clauses in Singapore contracts such as those contracted with Jurong Town Council, and provided a case study to demonstrate the considerable differences in accounting outcomes based on those considerations.

Dr Tan cautioned that despite the common perception that the new lease guidance does not affect lessors, this is not always the case. In the case of sub-leases, the new rules have changed the accounting for the sub-lease by the lessor. Specifically, it is now more likely under the new rules that the sub-lease will be accounted for as a finance lease for accounting purposes. Finally, Dr Tan explained the complex guidance on accounting for sale and leaseback arrangements, which have also changed significantly.

OTHER ACCOUNTING UPDATES

After a refreshment break, participants returned to the seminar for an overview of other accounting developments. The most significant upcoming development, according to Mr. Wong, is the expected new guidance on business combination, which will take effect for business combinations in financial year 2020. The rules are complex, and centre around a host of considerations, such as whether the acquisition involves the transfer of a skilled workforce, the uniqueness and replaceability of such a workforce, the extent to which the acquisition value is concentrated in a single asset or group of similar assets, and others. The application of the rules can affect conclusions about how the acquisition is recorded, including, inter alia, whether it is permissible to recognise goodwill, bargain purchase gains, and asset fair value lifts upon acquisition.

Another noteworthy development is the guidance on accounting for cryptocurrencies by IFRIC. Through an agenda decision, IFRIC has determined that cryptocurrencies should be accounted for as either inventories or intangible assets depending on the nature for which they are bought, held and sold by an entity. According to Mr. Wong, the decision could have significant implications on holders of cryptocurrencies who have hitherto marked-to-market the cryptocurrencies through the income statement. Mr. Wong also briefly highlighted other IFRIC agenda decisions which were concerned with various aspects of accounting for joint operations, accounting for stepped acquisitions and partial disposals of subsidiaries in standalone financial statements, and others.

TAXATION MATTERS

"Mr. Yong cautioned that lessees still need to distinguish finance leases from operating leases, notwithstanding the new accounting rules, as Singapore tax consequences continue to depend upon such a distinction.…"

Mr. Yong Jiahao, Director of Taxation Services at Complete Corporate Services (CCS) on the impacts of the changes in accounting to taxation

The final speaker of the seminar, Mr. Yong Jiahao, Director of Taxation Services at Complete Corporate

Services, next went on stage to provide an overview of how the accounting changes impact taxation.

On IFRS 9, Mr. Yong highlighted that similar to the tax treatment during the adoption of FRS 39 (or also known as IAS 39) for accounting purposes, the tax treatment of Financial Assets ("FAs") and Financial Liabilities ("FLs") under IFRS 9 generally follow the accounting treatment. In addition, the concept of FAs and FLs on revenue versus capital account is still relevant from the tax perspective even with the adoption of IFRS 9 for accounting purposes. The key difference, however, is that taxpayers no longer have an option to elect out of the IFRS 9 (or also known as FRS 109) tax treatment. Transitional accounting adjustments recognised in the first year of adopting IFRS 9 for accounting purposes may also be subject to tax adjustments and taxpayers also have to meet with various informational requirements that are to be submitted yearly.

Next, Mr. Yong advised that the accounting revenue as determined in accordance to IFRS 15 would continue to be accepted as the revenue in most cases for tax purposes, except where a specific tax treatment is already established through case law (e.g. profits of property developers) or legislation, or where the accounting treatment deviates significantly from tax principles (e.g. in the case of contracts with significant financing components). Professional expertise may be required to identify such areas and any upward transitional adjustment that is revenue in nature would be subject to tax and vice versa in the first year of adopting IFRS 15 for accounting purposes.

Finally, on leasing (i.e. IFRS 16), Mr. Yong cautioned that lessees still need to distinguish finance leases from operating leases, notwithstanding the new accounting rules, as Singapore tax consequences continue to depend upon such a distinction.

PANEL DISCUSSION & CONCLUSION

The seminar concluded with a panel session led by Mr. Neo. Panellists included all of the speakers, and touched on a wide variety of topics. These included issues associated with transition to the new lease accounting rules, implication of new lease accounting rules on cloud software licensing arrangements, nuances in the taxation definition of "finance lease", the rationale behind the latest changes to the rules on borrowing costs discussed during the seminar, the accounting and tax implications of research and development expenses, among others. Participants and panellists noted that these are complex developments. As regulations grow in volume and complexity, the need for expertise, professionalism, and judgment can only be expected to increase going forward.

Thereafter, the seminar was thrown open to the floor for questions from participants, following which tokens of appreciation were presented to the guest speaker. The seminar ended at 5.30pm.

"As regulations grow in volume and complexity, the need for expertise and professional judgement can only be expected to increase...."

- Panel Discussion with our speakers and panellists at the Moore Stephens-CCS Financial Reporting Seminar 2019

SEMINAR HIGHLIGHTS

From Left to Right: Mr Neo Keng Jin, Senior Partner and Head, Audit, Assurance and Advisory at Moore Stephens LLP, Singapore, Mr Wong Koon Min, Partner and Head of Technical, Compliance and Financial Services at Moore Stephens LLP, Singapore, Dr Pearl Tan, Associate Professor of Accounting at Singapore Managament University and Mr Yong Jiahao, Director of Taxation Services at Complete Corporate Services (CCS)

From Left to Right: Mr Ngiam Zee Moey, Corporate Development Director, AEI Corporation Ltd and Mr Bernard Juay, Director and Head, Business Advisory, CCS

From Left to Right: Mr Novin Yap, Accountant, Golden-Agri Stena Pte. Ltd, Ms Vivian Leong, Accountant, Golden-Agri Stena Pte. Ltd, Ms Helen Tong, Manager, Corporate Secretarial Services, CCS and Mr Joseph Yeo, Chief Financial Officer, Golden-Agri Stena Pte. Ltd

From Left to Right: Ms Amanda Lim Hwee Min, Finance Manager, Meridian Innovation Pte. Ltd., Ms Law Pei Serh, Associate Director, Taxation Services, CCS and Ms Jenny Tay May Ling, Senior Manager, Meridian Innovation Pte. Ltd.

From Left to Right: Mr Chintan Shah, Senior Manager, Taxation Services-Transfer Pricing, CCS, Ms Chong Kun Bei, Assistant Manager, Taxation Services, CCS, Mr Phua Wee Teck, Performance Controller, Petrobras Singapore Pte Ltd and Mr Ang Chze Hian, Finance Controller, Petrobras Singapore Pte Ltd

From Left to Right: Jackie Chow, Financial Controller, Addvalue Technologies Ltd, Ms Shirley Lim, Director and Head, Corporate Secretarial Services and Electronic Polling Solutions, CCS and Mr Kevin Tse, Finance Manager, Addvalue Technologies Ltd

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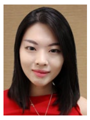

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