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Stay Current: Accounting and Assurance Update for 2018

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Financial reporting is undergoing several upcoming changes in 2018. We've summarized the new measures and discuss how they may impact you.

International Financial Reporting Standards (IFRS)

If you prepare your financial statements using IFRS, there are two major new standards that have to be applied for fiscal years commencing on January 1, 2018. All entities will be affected by these changes to some extent.

There is a new standard on revenue, IFRS 15, which applies to all contracts with customers except for leases, non-monetary exchanges, insurance contracts and financial instruments (the latter has its own standard – see below). The new revenue recognition model spells out a five step process, with the core principle that revenue recognized reflects the transfer of promised goods or services to customers in an amount that reflects the consideration to which you expect to be entitled. The five steps appear fairly straightforward; however, at each step there are detailed criteria to be assessed.

Step 1—Identify the contract with the customer.

Step 2 – Identify each separate performance obligation to transfer a good or service.

Step 3 – Determine the transaction price.

Step 4 – Allocate the transaction price to the various performance obligations on a relative stand-alone sales price basis.

Step 5 – Recognize revenue when or as performance obligations are satisfied (for goods, when control is transferred).

The other significant new standard is IFRS 9 on financial instruments, which changes the classification and measurement of financial assets, introduces a new impairment model and has some modifications to hedge accounting. The classification of financial assets will be determined by your company's business model for managing those financial assets, which in turn will drive the measurement basis to be used – fair value through profit and loss, amortized cost or fair value through other comprehensive income. This determination is made at a group level and you may have more than one model for managing different groups of financial assets.

A new 'expected credit loss' model replaces the previous standard's incurred loss model for impairment, and is expected to accelerate the recognition of losses. A simplified expedient is available for short-term trade receivables and lease receivables.

The main mechanics of hedge accounting have not really changed, but are considered to be less rules-based. IFRS 9 will likely not change the accounting for financial liabilities.

Accounting Standards for Private Enterprises

If you are a private entity, then you will not have to address any accounting changes in 2018 unless you hold strategic long-term investments. There is a standard issued on the application of the cost method as current guidance seemed to be lacking in details. Its objective is to clarify cost method application when used as an alternative accounting treatment for an interest in a subsidiary or an investment subject to significant influence. The underlying principle is that such an interest should be initially measured on a basis similar to a consolidated subsidiary or equity accounted investment respectively. Cost is initially measured at the acquisition date fair value of the consideration given and acquisition related costs are generally expensed.

Additional guidance is provided for impairment and disclosure requirements.

These accounting requirements must be applied to new acquisitions effective January 1, 2018 with early adoption permitted.

Review Engagement Standards

If you are a preparer or user of financial statements that are subject to a review engagement, you will see a new review engagement report for fiscal years ending after December 14, 2017. The report has significantly changed from prior years. The title alerts to the fact that we, as external accountants, are independent of the entity and it also spells out management's responsibilities as well as our responsibilities. Additional informational may need to be included in the report under certain circumstances, which would of course be discussed prior to finalizing our review engagement.

When engaged to perform a review engagement, we now have some additional requirements to meet under the new standards. You may find during the course of our engagement, we may request more detailed information. We will also request management to correct the accumulated misstatements we may identify.

We have highlighted the changes to financial reporting that will need to be addressed in 2018. These are significant changes to the standards; we would be pleased to discuss them in further detail. Please contact your Crowe Soberman representative to obtain more information on how these changes impact you.

This article has been prepared for the general information of our clients. Specific professional advice should be obtained prior to the implementation of any suggestion contained in this article. Please note that this publication should not be considered a substitute for personalized tax advice related to your particular situation.

Connect with the Author

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Rukshana Dinshaw joined the firm in 2002. As the Consultant of Professional Practice at Crowe Soberman, Rukshana ensures that the highest standards are met on each job and for every client. You can connect with Rukshana at rukshana.dinshaw@crowesoberman.com.

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