IFRS Accounting Standards
Quarterly Update
WEBCAST SERIES

Q4 2024 IFRS Quarterly Update

JANUARY 22, 2025

Learning Objectives

1

Describe timely IFRS Accounting Standards guidance, hot-topics and resources and their general impact on global accounting and financial reporting

2

Describe updates to IFRS Accounting Standards that have occurred over the past quarter and how they compare with the guidance included in U.S. Generally Accepted Accounting Practice

3

Describe anticipated upcoming changes to IFRS Accounting Standards guidance

With You Today

WENDY HAMBLETON
Principal

312-616-4657
whambleton@bdo.com

ANDREW MOORE
Director

312-616-4664
asmoore@bdo.com

OSCAR AYALA-MURILLO
Director

305-420-8002
oayala-murillo@bdo.com

SHANE CLASSEN
Senior Manager

312-239-9211
sclassen@bdo.com

Agenda

- Cash Flow Statement Reminders
- New Standards & Amendments (for YE December 31, 2024)
- Regulatory Enforcement Priorities
- IASB/IFRIC Agenda Updates
- Resources & Wrap Up

Cash Flow Statement Reminders

Cash Flow Statement

OPERATING ACTIVITIES

Main revenue producing activities of the entity and other activities that are not investing or financing activities (including taxes paid/received, unless clearly attributable to investing or financing activities). Cash flows from operating activities can be reported using the direct or indirect method.

INVESTING ACTIVITIES

Activities that relate to the acquisition and disposal of long-term assets and other investments that are not included in cash equivalents.

FINANCING ACTIVITIES

Activities that cause changes to contributed equity and borrowings of an entity.

Cash Flow Statement Considerations

What gets included in cash and cash equivalents?

Short term

(where the original maturity is 3 months or less, irrespective of maturity timing post balance date)

Highly liquid investments

Readily convertible to known amounts of cash

Subject to insignificant risk of changes in value

Case Study #1

FACTS

1. Spurs LLC is a construction company/developer and its main business is building condominiums in downtown Chicago.
2. Special escrow accounts are used as a method of financial support for the construction/development projects. Payments are received from the customers who will be purchasing the condominiums and held in escrow.
3. The lending bank provides the credit for the project through the special escrow account.
4. The customers funds in the escrow account are released to the developer by the Bank only after the completion of a substantial part of the project and in accordance with the conditions applicable to the special escrow account.
5. The escrow account is fully pledged in favor of the lending bank and the lending bank has a contractual right to delay withdrawal of funds from the escrow account (right of lien) as deemed appropriate.

QUESTION

Spurs' LLC controller, Mr. Son is suggesting that the company should classify the special escrow accounts as cash or at least as cash equivalents in the financial statements.

Is this statement correct?

Case Study #1

QUESTION

Spurs' LLC controller, Mr. Son is suggesting that the company should classify the special escrow accounts as cash or at least as cash equivalents in the financial statements.

Is this statement correct?

ANSWER

Mr. Son is not correct, the escrow account cannot be classified as cash or as cash equivalent under IAS 7.

- Demand Deposits: This issue relates to the IFRIC decision, Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 Statement of Cash Flows) from 2022.
- Cash comprises cash on hand and demand deposits.
- Withdrawing funds from escrow accounts is subject to the approval of the lending bank where the funds are deposited, and it has the right to delay the withdrawal.
- Therefore, these amounts cannot be considered as demand deposits.

This case study is different from the situation discussed in the Committee's decision, which dealt with deposits from which the limitation on withdrawing funds does not arise from the conditions of the deposit itself but from external conditions, vis-à-vis a third party and therefore a third party is not able to delay the withdrawal of cash from accounts.

Cash Flow Statement Considerations

- Classification of cash flows outside operating activities
- Cash flows must be reported gross
  - Set-off is only permitted in very limited cases and additional disclosures are required (refer to IAS 7.24 for examples relating to term deposits and loans)
- Non-cash investing and financing activities must be disclosed separately
- Acquisition and disposal of subsidiaries are investment activities and specific additional disclosures are required
- Inconsistencies between the information presented in the statement of cash flow compared to the notes in the financial statements
- Missing reconciliation of Cash flows from operating activities when the direct method is used

CASH FLOW STATEMENT

Case Study #2

FACTS

In June 2022, Maddison Manufacturing Inc's entered into a two-year $5 million line of credit balance. In September 2023 and 2024 the company increased the credit line capacity to $3 Million and $5 million, respectively and extend its maturity to June 2026. As of December 31, 2024 and 2023 the outstanding balance was as follows (in thousands):

December 31, 2024	**$2,496**
December 31, 2023	**$1,505**

On December 31, 2024, James the CFO assessed the presentation of the line of credit in the Company's consolidated statement of cash flows and signed off on the following presentation:

Cash Flow from Financing Activities (in thousands):	
Proceeds from Line of Credit	**$991**

QUESTION

Is this correct?

Case Study #2

QUESTION

Is this correct?

ANSWER

Unfortunately, Mr. James was incorrect. The company's financial statements needed to be restated.

In accordance with IAS 7, Statement of Cash Flows, the cash flow associated with the proceeds and payments relating to the line of credit borrowing did not meet the criteria for net presentation as the maturity associated with the line of credit was significantly greater than 90 days and, therefore, the company was required to present the cash flow activities associated with the line of credit by presenting separately proceeds from the line of credit and the associated repayments.

Cash Flow from Financing Activities (in thousands):	
Proceeds from Line of Credit	**$4,800**
Repayments of Line of Credit	**$(3,809)**

Case Study #3

FACTS

In November 2024, White Hart Lane, Inc issued 183,000 shares of Series A Preferred Stock and 91,500 warrants to purchase common stock for a total proceeds of $1,830,000 which consisted of $675,000 in cash and $1,155,000 in the form of 525 barrels of aged whiskey.

The CFO performed a final review of the company’s cash flow statement and a total of $1,830,000 is presented in the “Proceeds for Preferred Stock and Warrants” line item on the cash flow statement under financing activities.

QUESTION

Is the company’s presentation correct?

CASH FLOW STATEMENT

Case Study #3

QUESTION

Is the company's presentation correct?

ANSWER

White Hart Lane, Inc. was not correct. The Company will have to make the appropriate revisions to its cash flows as follows:

	AS PRESENTED	AS RESTATED
Cash Flow from Operating Activities		
Inventory	$ -	**$895,125**
Cash Flow from Investing Activities		
Purchase of PP&E	$ -	**$259,875**
Cash Flow from Financing Activities		
Proceeds from Issuance of Preferred Stock and Warrants	$1,830,000	**$675,000**
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred Stock Issued in Exchange for Inventory and Barrels	$ -	**$1,155,000**

New Standards and Amendments

FOR YEARS ENDED DECEMBER 31, 2024

Effective

FOR YEARS ENDED DECEMBER 31, 2024

New Standards Effective for the First Time

ON OR AFTER 1 JANUARY 2024

Classification of Liabilities as Current or Non-Current (Amendment to IAS 1) (*) — 1 JAN 2024

- Entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period
- Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period
- Clarification provided on the meaning of 'settlement' for the purpose of classifying a liability as current or non-current

Classification of Liabilities as Current or Non-Current (Amendment to IAS 1) (*) — 1 JAN 2024

- If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period

(*) BDO has issued IFRB 2024/02 **and** IFRS Accounting Standards In Practice - Classification of Loans as Current or Non-Current (2024/2025) explaining the amendments, which may be accessed here and here.

New Standards Effective for the First Time

ON OR AFTER 1 JANUARY 2024

Lease Liability in a Sale and Leaseback (Amendment to IFRS 16) (*)

1 JAN 2024

- The Amendments provide a requirement for the seller-lessee to determine “lease payments” or “revised lease payments” in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 7) (**)

1 JAN 2024

- The Amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements.
- The Amendments also provide guidance on characteristics of supplier finance arrangements.

(*) BDO has issued IFRB 2022/05 explaining the amendments, which may be accessed here.
(**) BDO has issued IFRB 2023/05 explaining the amendments, which may be accessed here.

Classification of Liabilities with Covenants as Current or Non-Current

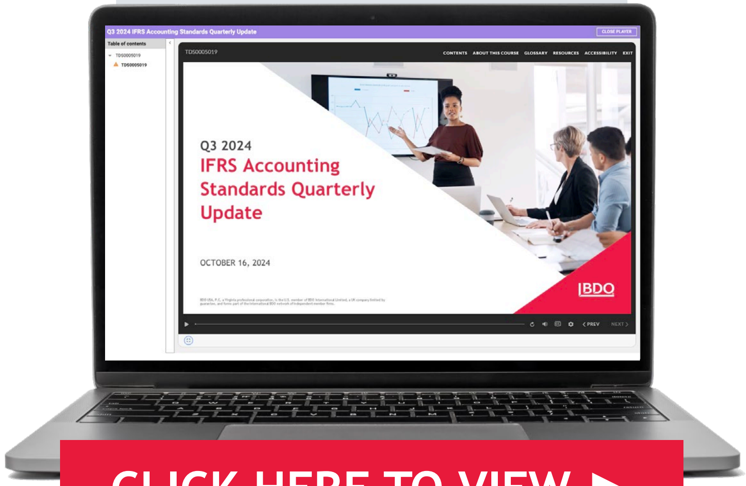
OVERVIEW

On October 2022, the IASB issued Non-current Liabilities with Covenants, which amended IAS 1 Presentation of Financial Statements.

The 2022 Amendments modified the requirements introduced by the 2020 Amendments and now require that covenants that need to be complied with only after the reporting period do not affect whether the right to defer settlement for a period of at least twelve months after the reporting period exists at the end of the reporting period.

The 2022 Amendments have brought clarity to several issues related to the classification of loans with covenants as current or non-current. However, there are many complexities in this determination.

Detailed training on the Amendments to IAS 1 was delivered in our Q3 2024 IFRS Quarterly Update Training.



CLICK HERE TO VIEW ▶

Lease Liability in a Sale and Leaseback

OVERVIEW

Amendments to IFRS 16 Lease Liability in a Sale and Leaseback issued on 22 September 2022

Prior to the Amendments

No specific measurement requirements for lease liabilities that may contain variable lease payments arising in a SALT (*)

Effect of the Amendments

Requirement for the seller-lessee to determine “lease payments” or “revised lease payments” in a way that the seller-lessee would **not recognise** any amount of **the gain or loss that relates to the right of use retained by the seller-lessee**

- No specific measurement methodology prescribed
- Seller-lessee to formulate the methodology depending on facts and circumstances of the case

(*) Sale and Leaseback Transaction

Supplier Finance Arrangements

OVERVIEW

On 25 May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures.

These Amendments arose as a result of a submission received by the IFRS Interpretations Committee about the presentation requirements for liabilities and associated cash flows arising out of supply chain financing arrangements and related disclosures.

The Amendments:

Introduce **some specific disclosure requirements in IAS 7 and IFRS 7** related to supplier finance arrangements

Provide guidance on **characteristics of supplier finance arrangements**

Issued but Not Yet Effective

FOR YEARS ENDED DECEMBER 31, 2024

New Standards Issued but Not Yet Effective

When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

a) this fact; and

b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application. (IAS 8.30)

In complying with paragraph 30, an entity considers disclosing:

a) the title of the new IFRS;

b) the nature of the impending change or changes in accounting policy;

c) the date by which application of the IFRS is required;

d) the date as at which it plans to apply the IFRS initially; and

e) either:

   i. a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or

   ii. if that impact is not known or reasonably estimable, a statement to that effect. (IAS 8.31)

New Amendments Issued but Not Yet Effective

Lack of Exchangeability (Amendments to IAS 21) (*)

1 JAN 2025

- Requirement to assess when a currency is exchangeable into another currency and when it is not
- The amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency
- See Appendix C of this training

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

1 JAN 2025

- Modification to derecognition requirements for financial liabilities settled using electronic payment systems
- Clarifying how the SPPI test is performed, to address concerns around instruments with ‘ESG’-linked features
- Amendments to non-recourse and contractually linked instrument criteria
- New disclosure requirements for equity instruments designated at FVTOCI and instruments where contractual terms could change the timing or amount of contractual cash flows

(*) BDO has issued IFRB 2023/08 explaining the amendments, which may be accessed here.

New Standards Issued but Not Yet Effective

IFRS 18 Presentation and Disclosure in Financial Statements (*) — 1 JAN 2027

- Requires new defined subtotals in the statement of profit or loss
- Requires to disclose information about management defined performance measures (MPMs)
- Provides companies with principles for grouping information
- Separate course on IFRS 18 included in this training

IFRS 19 Subsidiaries without Public Accountability: Disclosures (**) — 1 JAN 2027

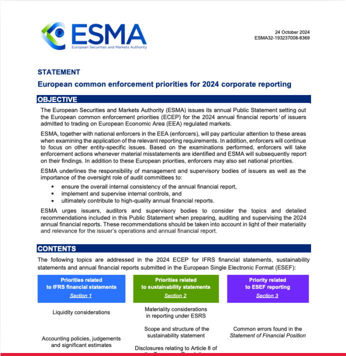
- IFRS 19 permits some subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements
- These entities apply the recognition, measurement and presentation requirements in other IFRS Accounting Standards and the disclosure requirements in IFRS 19
- See Appendix D of this training

(*) BDO has issued IFRB 2024/04 explaining the amendments, which may be accessed here.
(**) BDO has issued IFRB 2024/06 explaining IFRS 19, which may be accessed here.

Regulatory Enforcement Priorities

FOR 2024 YEAR-ENDS

ESMA (Europe)



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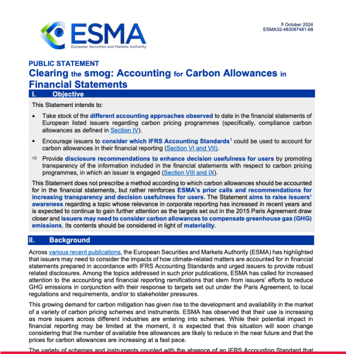
PUBLISHED OCTOBER 24, 2024

- Sets out European common enforcement priorities (ECEP) for annual financial reports of issuers in the European Economic Area (EEA)
- Enforcement priorities often consistent with other enforcers around the world.



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PUBLISHED OCTOBER 8, 2024

- Sets out the different approaches to account for carbon pricing programs
- Encourages issuers to make certain disclosures in financial statements
- Highlights connectivity between financial statements and sustainability reporting

REGULATORY ENFORCEMENT PRIORITIES FOR 2024 YEAR-ENDS

ESMA (Europe)

IFRS Financial Statements

Liquidity considerations; accounting policies, judgements and significant estimates

COMMON PRIORITIES

ESEF Reporting

Common errors in the statement of financial position

Sustainability Statement

Materiality considerations (ESRS); scope and structure of sustainability statement; disclosures relating to Taxonomy Regulation

Financial Statements: Liquidity Considerations

Supplier Finance Arrangements (SFA)

- New IAS 7 and IFRS 7 disclosure requirements for SFAs (effective from 1 January 2024)
- Terms and conditions of SFAs, and reconciliations of balances

Covenants, including IAS 1 amendments

- Amendments to IAS 1 effective 1 January 2024
- New disclosure requirement (IAS 1.76ZA) when loans classified as non-current: risk that they may become payable within the next 12 months
- Also consider IAS 10 disclosures

Statement of cash flows

- No netting unless specifically permitted
- Non-cash transactions to be excluded
- Material non-cash investing and financing transactions must be disclosed
- Most bank borrowings are financing

Financial Statements: Liquidity Considerations

General Remarks

- Disclosures should be entity specific and include judgements made
- Consistency with other information
- Avoid ‘accounting lessons’ (e.g. 1 page accounting policy on accounting for income taxes)

Control, joint control, and significant influence

- When factors other than voting rights leads to conclusion, disclosure should be made
- Disclose the judgement that has been made in assessing control, significant influence or joint control

Revenue from contracts with customers

- Focus on long-term contracts (e.g. definition of contract and estimate of costs)
- Principal vs. agent considerations
- Disclosure of when ‘backlog’ revenue is expected to be recognized
- Reconciliation of opening and closing contract balances

IASB and IFRIC Agenda Updates and Other Information

NEW IFRS STANDARDS UPDATE: AMENDMENTS TO IFRS 9 AND IFRS 7

Nature-Dependent Electricity

ISSUED: 18 December 2024

EFFECTIVE DATE: Annual reporting periods on or after 1 January 2026, early application permitted

KEY POINTS

- Explanation of the meaning of *“contracts referencing nature-dependent electricity”*
- Clarifying *“own-use”* requirements in IFRS 9 as it relates to nature-dependent electricity
- Amendments to hedge accounting requirements and disclosures
- Amendments include illustrative example

Exposure Draft

IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

- Exposure Draft (the ED) Equity Method of Accounting IAS 28 (Investments in Associates and Joint Ventures (revised 202x)) was issued by the IASB on 19 September 2024
- The ED proposes a revision to IAS 28, which might significantly affect entities that apply the equity method
- The ED addresses application questions related mainly to the following areas:
  - Changes in an investor's ownership interest on obtaining significant influence
  - Changes in an investor's ownership interest while retaining significant influence
  - Recognition of share of losses by the investor or joint venturer
  - Transactions with associates and joint ventures
  - Deferred taxes
  - Contingent consideration
  - Impairment of the investment
- The IASB has also regrouped the requirements of IAS 28 by topic, such as recognition and initial measurement, subsequent measurement, etc.
- The ED is open for comments until 20 January 2025

IASB Meetings

OCT
11
2024

Joint education meeting with the FASB

- **Discussion items included:** Disaggregation and cashflow presentation, intangibles, sustainability related matters, PIRs for revenue and leases and other projects

OCT
21-23

Agenda items included: Power purchase agreements, FICE, intangible assets business combinations

- **FICE Project:** Considered feedback from comments on presentation and disclosure — no decisions, comments were mixed
- **Intangible Assets:** The board discussed the potential scope of the project based on feedback received
- **Business combinations:** Feedback on exposure draft comments and other outreach — no decisions
- **Power purchase agreement:** See prior slide

IASB Meetings

NOV 19-20

Agenda items included: Management Commentary, IFRS for SMEs and taxonomy

- **Management Commentary:** Targeted refinements, IFRS for SMEs working on sweep issues (expect to issue in 1H 2025), taxonomy proposal for IFRS 18

DEC 9-11

Agenda items included: Management commentary, business combinations, taxonomy and work plan

- **Management commentary:** Targeted refinements and determined to go forward with balloting
- **Business combinations:** Continued discussions and focused on academic literature review
- **Taxonomy:** Focused on update for contracts for renewable energy, IFRS 19 and other changes

Interpretations Committee Meeting

26 NOVEMBER 2024

- Assessing indicators of hyperinflationary economies – request related to identifying when an economy became hyperinflationary and if all indicators in paragraph 3 of IAS 29 should be considered.
    - Committee determined that little, if any diversity in understanding the requirements so did not recommend adding a standard-setting project.
- Recognition of intangible assets resulting from climate-related expenditures – question related to whether expenditures for carbon credits and research activities met the requirements to be recognized as an asset
    - Committee determined there was no material diversity in practice in accounting for expenditures on R&D, the IASB has already added to reserve list a project on pollutant pricing mechanisms including carbon credits to committee did not consider this question.
- Committee concluded discussion on cash flows related to variation margin calls based on feedback from tentative agenda decision.
- Committee provided feedback on other IASB projects

Requirements of IFRS 8.23

IFRS 8.23(a)-(i) requires certain revenue and expense items to be disclosed per reportable segment if criteria are met:

IFRS 8.23(a) & (b)
Revenues from external customers and inter-segment transactions

IFRS 8.23(c)
Interest revenue

IFRS 8.23(d)
Interest expense

IFRS 8.23(e)
Depreciation and amortization

IFRS 8.23(f)
Material items of income and expense (IAS 1.97)

SUBJECT OF IFRIC SUBMISSION

IFRS 8.23(g)
Interest in profit or loss of associates and JVs applying the equity method

IFRS 8.23(h)
Income tax expense or income

IFRS 8.23(i)
Material non-cash items other than depreciation and amortization

Impact of IFRIC Agenda Decision

1

IFRS 8.23

How should IFRS 8.23 be interpreted to determine which of the specific items in IFRS 8.23(a)-(i) should be reported?

2

“Material”?

How should “material items of income and expense” (IFRS 8.23(f)) be interpreted?

3

“Mini profit or loss”

Will every material item of income and expense that is included in segmental profit or loss be disclosed in the segment reporting note?

Segment Reporting

IAS 1.7

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 taken as a whole.**

IAS 1.97

When items of income or expense are material, an entity shall disclose their nature and amount separately.

IAS 1.98 EXAMPLES OF MATERIAL ITEMS

- Write-downs of inventory
- Restructurings
- Disposals of PP&E
- Disposals of investments
- Discontinued operations
- Litigation settlements
- Other reversal of provisions

CONCLUSION: *"Material items"* does not only mean qualitatively material items (IAS 1.98); material items means any items that are material, regardless of the reason for this assessment.

Segments

3

"Mini profit or loss"

Will every material item of income and expense that is included in segmental profit or loss be disclosed in the segment reporting note?

Preparers must assess what information in financial statements is material (IAS 1.7)

Materiality is assessed in the context of the **financial statements taken as a whole**

Preparers assess how to aggregate information; a disclosure need not provide specific disclosures if they are not material (IAS 1.31)

CONCLUSION: Not necessarily.

Comments at the December AICPA & CIMA Conference

The AICPA & CIMA holds an annual conference in Washington in December that highlights activities of the SEC and the PCAOB.

- In the current year comments were made related to the applicability of a Staff Accounting Bulletin (SAB) to foreign private issuers applying IFRS.
  - SAB Topic 4C, Changes in Capital Structure, addresses when certain equity transactions such as stock dividends or stock splits should be reflected in the financial statements. Questions have arisen as to whether the guidance applies to financial statements prepared in accordance with IFRS. The staff noted that IFRS and US GAAP have similar subsequent event guidance and therefore the SAB should apply to FPIs which prepare financial statements in compliance with IFRS.

Resources

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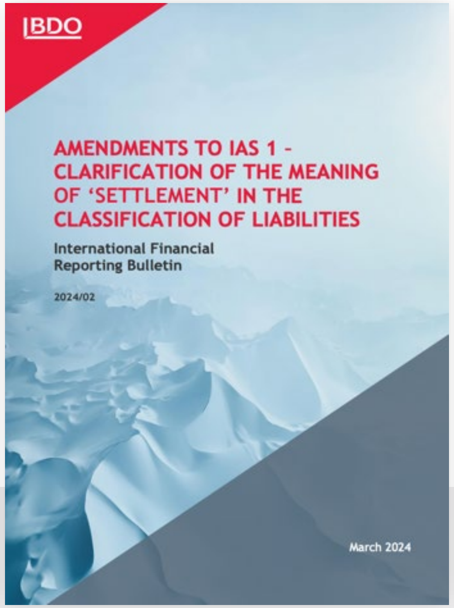
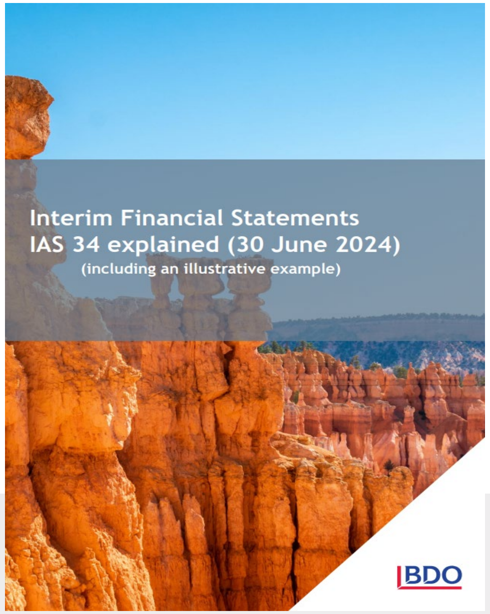
IFRS Resources





IFRS Global:

- International Financial Reporting Bulletin (IFRB)
- IFRS At-a-Glance
- IFRS in Practice
- Interim Illustrative Financial Statements (June 30, 2024)
- Year-end Illustrative Financial Statements (December 31, 2024)
- IFRS FAQs series

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About BDO's IFRS Accounting Standards Quarterly Update

BDO's IFRS Quarterly Update webinar series is designed to help financial management, board directors, and audit committees stay on top of today's hot IFRS accounting topics and key regulatory developments.

Our series covers a variety of topics intended to:

- Describe timely IFRS guidance, hot-topics and resources and their general impact on global accounting and financial reporting
- Describe updates to IFRS that have occurred over the past quarter and how they compare with the guidance included in the U.S. Generally Accepted Accounting Practice
- Describe anticipated upcoming changes to IFRS Guidance

About BDO's Quarterly Technical Update Webinar Series

BDO's Quarterly Technical Update webinar series is designed to help financial management, board directors, and audit committees stay on top of today's hot accounting topics and key regulatory developments.

The series is produced and delivered by qualified professionals in BDO's Assurance practice. One (1) hour of CPE may be earned for each of the quarterly events.

Following these webinars, attendees will be able to:

- Recognize recently released, project and proposal stage accounting and financial reporting guidance developed by the FASB, EITF and PCC
- Describe timely SEC guidance, topics and resources and their general impact on accounting and financial reporting
- Describe project and proposal stage literature that may have a broad impact on financial reporting
- Describe evolving corporate governance activities including those of the PCAOB, CAQ and other organizations

Questions?

Thank you!

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