

Technical Update TU009/2024

Issued in September 2024

This article covers important amendments issued by:

The International Accounting Standards Board, as adopted and approved by Accounting and Auditing Regulator, Cambodia's Regulator of the Accountancy Profession

This newsletter covers the following areas:

- I. CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT LIABILITIES WITH COVENANTS – AMENDMENTS TO IAS 1 *PRESENTATION OF FINANCIAL STATEMENTS*
- II. LEASE LIABILITY IN A SALE AND LEASEBACK – AMENDMENTS TO IFRS 16 *LEASES*
- III. SUPPLIER FINANCE ARRANGEMENTS – AMENDMENTS TO IAS 7 *STATEMENT OF CASH FLOWS* AND IFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

I. CLASSIFICATION OF LIABILITIES WITH COVENANTS AS CURRENT OR NON-CURRENT LIABILITIES – AMENDMENTS TO IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

Overview

The amendments to IAS 1 clarify the criteria for classifying liabilities with covenants as current or non-current. The amendments also require to disclose additional information to stakeholders and consider any potential impact on financial statements presentation.

Core Content

The previous IAS 1 requirements state that companies should classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The International Accounting Standards Board (IASB) had changed this requirement so that now a right to defer settlement must exist at the reporting date and must have substance.

Similar to the existing IAS 1 requirements, the classification of liabilities is not affected by management's intentions or expectations about whether the company will defer settlement or choose to settle early.

A company will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date, subject to the company complying with conditions specified in a loan arrangement.

After reviewing the 2020 amendments, the IASB clarified that only covenants a Company must comply on or before the reporting date affect how liabilities are classified as current or non-current.

Future covenants that are required to comply with after the reporting date do not influence how liabilities are categorized. However, if these future covenants are tied to non-current liabilities, companies must disclose information to help users understand the risk of these liabilities becoming due for repayment within 12 months after the reporting date.

Effective Date and Transition

The amendments apply retrospectively for annual reporting periods beginning on or after 1 January 2024, with the option for early adoption.

II. LEASE LIABILITY IN A SALE AND LEASEBACK – AMENDMENTS TO IFRS 16 LEASES

Overview

The amendments to IFRS 16 directly affect how a seller-lessee accounts for variable lease payments in sale-and-leaseback transactions. These changes bring in a new accounting model for variable payments, requiring seller-lessee to assess potential restatement of the financial statements for the transactions made since 2019.

Core Content

The amendments state that at initial recognition, seller-lessee must include variable lease payments in the measurement of a lease liability arising from a sale-and-leaseback transaction. After recognition, seller-lessee must follow the general requirements for subsequent accounting of the lease liability without recognizing gains or losses related to the retained right-of-use asset. Seller-lessee can adopt different approaches that comply with the updated subsequent measurement criteria.

Effective Date and Transition

These amendments are effective for annual reporting periods starting on or after 1 January 2024, with the option for earlier implementation.

According to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, seller-lessee is required to retrospectively apply the amendments to sale-and-leaseback transactions entered into after the initial adoption of IFRS 16.

III. SUPPLIER FINANCE ARRANGEMENTS – AMENDMENTS TO IAS 7 STATEMENT OF CASH FLOWS AND IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

The amendments to IAS 7 emphasize disclosing information to demonstrate how supplier finance arrangements affect liabilities, cash flows, and liquidity risk. New disclosure goals include explaining the impact on liquidity risk and exposure, expanding requirements in IAS 7.

Key Changes

The amendments do not provide a strict definition of supplier finance arrangements. Instead, they outline the characteristics of arrangements for which entities must furnish information. Notably, arrangements serving solely as credit enhancements for the entity or as instruments for direct settlement with suppliers do not qualify as supplier finance arrangements.

Two new disclosure objectives have been introduced. Entities are mandated to disclose information in the notes that aids financial statement users in evaluating how supplier finance arrangements impact an entity's liabilities and cash flows. Additionally, users should be able to comprehend the effect of these arrangements to entity's exposure to liquidity risk and the potential impacts should these arrangements become unavailable.

These changes supplement existing IFRS requirements by incorporating additional disclosure mandates in IAS 7, including:

- details regarding the terms and conditions of supplier finance arrangements
- at the inception and conclusion of the reporting period, entities must disclose:
 - a) The carrying amounts of financial liabilities within the arrangement and the corresponding line item.
 - b) The carrying amount of financial liabilities as per a) for which suppliers have received payment from finance providers.
 - c) The range of payment due dates for financial liabilities (e.g., 30 to 40 days post-invoice) within the arrangement and comparable trade payables outside such arrangements.
- the nature and impact of non-cash fluctuations in the carrying amounts of financial liabilities within the arrangement.

The IASB has determined that, in most scenarios, aggregated information concerning an entity's supplier finance arrangements will meet the informational needs of financial statement users.

Effective Date and Transition

The amendments take effect for periods starting on or after 1 January 2024, allowing for early adoption. Transition relief is available, which includes provisions for comparative information and interim period data.

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