Accounting & Corporate Reporting Key considerations and reminders for 2021/2022 – IFRS reporters

This technical publication sets out the key accounting and corporate reporting considerations and reminders for the 2021/2022 reporting season.

Overview of key considerations

1. **Covid-19 reporting** – Judgement and uncertainty arising from continuing economic and social impact of Covid-19
2. **Climate change reporting** – Considering the impact on the recognition and measurement of assets and liabilities in the financial statements
3. **Software as a Service (SaaS)** – Accounting for configuration and customisation costs
4. **Interest Rate Benchmark Reform (Phase 2)** – Accounting implications from IFRS amendments
5. **Covid-19-Related Rent Concessions Beyond 30 June 2021** – Accounting implications from IFRS amendments
6. **Corporation tax rate change to 25%** – Substantially enacted with effect from 1 April 2023
7. **Climate-related Financial Disclosures** – Mandatory requirements with effect from 1 January 2021 and beyond
8. **European Single Electronic Requirements (ESEF)** – Mandatory requirements for main market listed companies
9. **Company legislation changes arising from the UK's exit from the EU** – Exemptions for the small companies regime and preparing group accounts

This publication is intended to be a quick reference guide of the top issues affecting companies reporting under IFRS. It is not intended to be a detailed and exhaustive guide for the issues that could affect all companies. References have been included where applicable, so further information can be obtained as required.

mazars

January 2022

Covid-19 reporting – Judgement and uncertainty arising from continuing economic and social impact of Covid-19

The economic and social impact of the Covid-19 pandemic is ongoing and therefore some companies are continuing to face the economic and operational effect on their business, such as reduced sales and revenues, restricted working patterns and disruption to operating activities, interrupted supply chains, increased costs and lack of availability of funding.

Key reminders:

- Ensure the **annual report provides sufficient information** to enable users to understand the impact Covid-19 has had on the company's performance, position and cash flows both within the annual, and interim, reports.
- Ensure the **critical judgments and key sources of estimation uncertainty** take into consideration the ongoing economic and social impact of Covid-19, particularly across the going concern assessment, impairment testing on non-financial assets, expected credit loss provisioning on receivables and provisions for liabilities, such as restructuring and onerous contract provisions.
- Ensure the **disclosures are complete** within the financial statements and reflect the judgements and estimates taken by the company.

Climate change reporting – Considering the impact on the recognition and measurement of assets and liabilities in the financial statements

There is a raft of changes being developed by governments and regulatory bodies within the UK, and around the world, to significantly expand the requirements for businesses to report on climate-related matters. Stakeholders are also becoming increasingly interested in understanding how businesses are responding to climate change issues, in terms of adapting business models to deal with climate-related matters, reporting on how the business' activities impact the environment, and understanding the impact of climate-related matters on the financial performance of the business.

Key reminders:

- Ensure the company considers both the **impact that climate change is having on the business** and the **impact that the company is having on climate change and the environment**. It is a two-way consideration that needs to be reported.
- Ensure the company considers **both the impact for reporting within the front-end of the annual report and the impact on the financial statement**. This includes the impact on the **recognition and measurement of assets and liabilities** such as the impact on impairment of assets, useful lives of assets, recognition and measurement of provisions.

Further information:

- *Technical Issues Trending Now – November 2021*

Key considerations and reminders for 2021/2022 - IFRS reporters

Software as a Service (SaaS) – Accounting for configuration and customisation costs

The IFRS Interpretations Committee has issued an agenda decision regarding how to account for configuration or customisation costs associated with software purchased from a supplier in a Software as a Service (SaaS) arrangement (i.e. a cloud-based computing arrangement). The conclusion reached was that, where a company does not control the software being configured or customised (and therefore the access to the software is a service), then the costs should be recognised as an expense (rather than capitalised as an intangible asset). There are circumstances where the costs should be recognised as a prepayment and then recognised as an expense in profit or loss over the software contract term.

Key reminders:

- For some companies, the implications may take **significant time to consider and implement**, gather appropriate data, and determine the required accounting changes and may have a **significant impact on profit lor loss**.
- Where the accounting requirements do apply, ensure that the **costs are appropriately reflected in profit or loss**, and consideration given as to any resulting impact on the company's reported APMs, employee benefit schemes and/or covenant ratios.

Further information:

- *IFRS change – Understanding the accounting for configuration or customisation costs in a Software as a Service (SaaS) arrangement*

Interest Rate Benchmark Reform (Phase 2) – Accounting implications from IFRS amendments

From 1 January 2021, IFRS amendments apply to all companies that have financial instruments linked to LIBOR (or other financial instruments subject to the IBOR reform changes). The IFRS amendments specifically relate to: allowing a simplified approach to applying the modification accounting (such as changing a debt agreement that has terms linked to LIBOR); allowing various simplified approaches when applying hedge accounting; and requiring additional disclosures requirements about the impact of the IBOR reform on the entity.

Key reminders:

- The purpose of these amendments is to **simplify the required accounting for changes of financial instruments that are linked to LIBOR** (or another IBOR affected by the reform), so the amendments will save the company time and cost in accounting for changes and applying the hedge accounting requirements.
- For some companies, the implications may take **significant time to consider and implement**, gather appropriate data, and determine the required accounting changes; and require **additional disclosures to be provided** in the financial statements.

Further information:

- *IFRS Update – February 2021*

Key considerations and reminders for 2021/2022 - IFRS reporters

Covid-19-Related Rent Concessions Beyond 30 June 2021 – Accounting implications from IFRS amendments

From 1 April 2021, IFRS amendments voluntarily apply to companies that have received (as a lessee) rent concessions as a direct result of Covid-19. These amendments do not apply to lessors. These amendments extend those brought in last year by a further one year, so that the simplified accounting requirements apply to rent concessions up to 30 June 2022 (previously 30 June 2021).

Key reminders:

- The purpose of the IFRS amendments is to **simplify the required accounting for rent concession received**, so the amendments will allow companies not to account for the change in lease payments as a lease modification, but instead recognise the impact of the concession in profit or loss for the period, and not over the residual term of the lease.
- For some companies, the implications may take **significant time to consider and implement**, gather appropriate data, and determine the required accounting changes; and require **additional disclosures to be provided** in the financial statements.

Further information:

- *IFRS 16 Leases - Amendment to extend the relief period for lessees accounting for Covid-19-related rent concessions*
- *Impact of Covid-19: Accounting for rent concessions under IFRS and FRS 102 - The differences, similarities and are they enough?*

Corporation tax rate change to 25% – Substantially enacted with effect from 1 April 2023

On 24 May 2021 the Finance Bill 2021 was substantially enacted, meaning that the main rate of corporation tax for companies with profits in excess of £250,000 changes from 19% to 25%, effective from 1 April 2023. The 19% rate will continue to apply to companies with profits of not more than £50,000, with marginal relief for companies with profits of up to £250,000.

For IFRS reporters, deferred tax must be measured using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date, and that are expected to apply to the period when the asset is realised or the liability is settled. The measurement of the deferred tax must reflect the change in corporation tax of 25% as from 1 April 2023.

Key reminders:

- Ensure the deferred tax calculations for the **measurement of deferred tax assets and liabilities reflects the change in rate** for realising assets and settling liabilities after 1 April 2023. This could have significant implications for deferred tax balances where the change is required to be recognised in profit or loss, for instance intangible assets arising on acquisitions.
- Ensure the **change in rate is recognised appropriately through profit or loss**, other comprehensive income or directly in equity, depending upon the nature of the deferred tax arising.

Key considerations and reminders for 2021/2022 - IFRS reporters

Climate-related Financial Disclosures – Mandatory requirements with effective from 1 January 2021 and beyond

From 1 January 2021, premium listed companies must state in their annual report whether they have included disclosures consistent with the TCFD recommendations and, where they have not included particular recommendations or disclosures, to explain what is omitted, why and the timescale over which they expect to achieve compliance. This requirement for premium listed companies is set out in the Listing Rules. For standard listed companies, the requirement is applicable from 1 January 2022.

New Companies Act regulations will also become effective for accounting periods beginning on or after 6 April 2022 which will require companies with more than 500 employees that are either listed on AIM or have a turnover of more than £500 million ('high turnover' companies). With these fast-pace developments in climate reporting coming through, all companies could benefit from taking action now.

Key reminders:

- For **premium listed companies**, ensure the disclosures provided in the annual report:
  - Provide **a 'report or explain' structure**, meaning that where the company has not complied with any of the TCFD recommendations, then sufficient explanation is provided to describe the path to be compliant along with expected timeframes.
  - Where disclosures are provided in another document other than the annual report, ensure explanations are provided to state why this has been done and **explain where the disclosures can be found**.
- For **standard listed companies and other companies subject to the Companies Act regulations**, ensure the process for implementing the new requirements is on the board's agenda (if it is not already) and that an appropriate structure (whether an individual or a committee) is established to consider the companies' activities, determine the areas with the most potential to be affected and begin planning for implementation.

Further information:

- *Climate-related Financial Disclosures*
- *Task Force on Climate-related Financial Disclosures*

European Single Electronic Requirements (ESEF) – Mandatory requirements for main market listed companies

From 1 January 2021, main market listed companies must apply the ESEF requirements to publish and file annual financial reports in accordance with the Regulatory Technical Standards (RTS), which includes the tagging of individual disclosures according to a published taxonomy and the publishing of its annual financial reports in a XHTML web browser format. The requirements are being phased in in two stages: From 1 January 2021 - Phase 1 of mandatory application: Annual financial reports to be published and filed in ESEF and mandatory tagging of basic financial information. From 1 January 2022 - Phase 2 of mandatory application: Mandatory tagging of notes to the financial statements.

For UK companies, there is currently no *requirement* in UK law for the auditor to report on whether the electronic formatting of the financial reports complies with ESEF requirements. However, a company may wish on a *voluntary* basis to obtain assurance that covers the tagging of the ESEF financial reports, prepared in accordance with the FRC's ISAE 3000 standard.

Key reminders:

- Ensure **consideration is given to the new requirements and appropriate time is factored into the reporting process**.
- Where the company wishes to obtain some form of assurance covering the ESEF requirements, **please consult with your Mazars' audit team.**

Key considerations and reminders for 2021/2022 - IFRS reporters

Company legislation changes arising from the UK's exit from the EU – Exemptions for the small companies regime and preparing group accounts

From 1 January 2021, various legislative changes are effective for UK companies as a result of the UK leaving the EU. Two of those changes, which are considered to be most common, are:

- **Small companies regime exemption** – The new definition of an ineligible group means that a company, which is part of a group that contains a company whose shares are traded on an EU regulated market, is no longer excluded from applying the small companies regime. The new definition of an ineligible group continues to apply to UK regulated markets only, such as the London Stock Exchange. It does not apply to entities on to AIM as it is not a regulated market.
- **Group accounts exemption** – A company previously applying Section 400 (the exemption from preparing group accounts where its parent is *an EU entity*) is no longer able to take the exemption under Section 400 of the Companies Act 2006. Instead, it should consider applying Section 401. Section 401 permits a UK intermediate parent to be exempt from preparing group accounts when the UK parent and its subsidiaries are included in consolidated accounts of a *non-UK* parent whose accounts are prepared in an equivalent manner to those prepared under the Companies Act 2006.

Key reminders:

- Ensure the company is **aware of the changes in the legislation** and, where applicable, actions are taken to ensure the appropriate changes are made to the preparation of financial information.
- Where a company applies **Section 401 to be exempt from preparing group accounts** – Ensure the company: **files its group accounts**, along with its company accounts, at Companies House to meet the qualifying conditions of the exemption under Section 401; **updates the disclosures** in the financial statements for the appropriate section reference; and **where applicable, carries out an assessment** to ensure the group accounts have been prepared in an equivalent manner to the Companies Act 2006.

Please note that there are other legislative changes arising as result of the UK's exit from the EU, which are not discussed further in this publication, relating to changes in accounting framework, accounting reference date, dormant companies and the exemption from audit by way of parent company guarantee.

Useful links: Mazars publications and Financial Reporting Council (FRC) reports

Throughout our *Technical Issues Trending Now* publications from 2021, we referred to many source reports and documents, either Mazars technical publications or reports produced by the Financial Reporting Council (FRC). These reports and reviews provide guidance on new mandatory requirements and/or as best practice guidance and recommendations for improving the overall quality of the annual report, and so are helpful when preparing annual reports.

Here we set out an overview of those reports and documents for easy reference:

Mazars technical publications

- *Section 172 Reporting: Understanding what is required and preparing to meet the requirements*
- *Climate-related Financial Disclosures*
- *Hot Topic: What does good look like? - Improving cash flow statements and liquidity disclosures*
- *Hot Topic: Interim reporting: What does good look like? - Key highlights checklist from the FRC's thematic review*
- *Hot Topic publication: FRC Annual Review Key Highlights Checklist 2020/21*

Financial Reporting Council publications

Front-end reporting

- *Improving the quality of 'comply or explain' reporting* (February 2021)
- *Workforce Engagement and the UK Corporate Governance Code: A Review of Company Reporting and Practice* (May 2021)
- *Changes in Remuneration Reporting Following the UK Corporate Governance Code 2018* (May 2021)
- *Reporting on stakeholders, decisions and Section 172* (July 2021)
- *Reporting on risks, uncertainties, opportunities and scenarios – Closing the gap* (September 2021)
- *Thematic Review: Streamlined Energy and Carbon Reporting* (September 2021)
- *Annual Review of Corporate Governance* (November 2021)

Financial statements reporting

- *Thematic Review: Interim Reporting* (May 2021)
- *Annual Review of Corporate Reporting 2020/21* (October 2021)
- *Thematic Review: Alternative Performance Measures (APMs)* (October 2021)
- *Thematic Review: Viability and Going Concern* (October 2021)
- *Thematic Review: IAS 37 'Provisions, Contingent Liabilities and Contingent Assets* (October 2021)

Contact

Mazars has a specialist Accounting Technical Services team dedicated to providing support on accounting and corporate reporting matters.

This technical publication aims to provide you with a high-level briefing of the changes and developments impacting accounting and corporate reporting. For more detailed information and a comprehensive understanding of how these issues impact your business, please contact:

Jessica Howard

Director, Accounting Technical Services

T: +44 (0) 7794 031373

E: jessica.howard@mazars.co.uk

mazars