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FINANCIAL REPORTING MATTERS

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It's the year-end financial reporting season again. What do you need to consider when finalising the financial statements for 2013? Usually, the focus will be on estimates and disclosures. Read this issue to find out which estimates and financial statements disclosures might require closer attention.

In addition, we provide you with an overview of changes in the areas of financial reporting standards, income taxes, and legal and regulatory issues in 2013. It is worth checking this list against your own circumstances to see if any of them require changes to your financial statements or any disclosures for the year end 2013.

Also, many businesses will be entitled to the benefits under the Productivity and Innovation Credit Scheme. Have you included the benefits in your tax provision computation? Read this issue to find out the benefits you are entitled to and how you should account for your entitlement this year-end.

Last but not least, we bring to you a roundup of the latest accounting developments on the international front.

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1. Year-end reporting: Estimates - Have they been revised to reflect current conditions?

This article is contributed by:

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In 2013, businesses were confronted with numerous actual and impending changes in the regulatory and tax landscape which created significant uncertainty and contributed to more volatile market conditions.

Estimates, being the usual suspects affected by changing market conditions and evolving business and regulatory landscape, have to be reviewed and revised to reflect current conditions and expectations.

The uncertain business environment means more management judgement is required when making estimates used for financial reporting purposes. We explore how the uncertainties could affect the estimates this year-end.

1. Provision for income taxes

Numerous prominent multinationals were recently accused of not paying their fair share of taxes. The limelight on their tax affairs triggered heated discussions on the issue of tax morality. While tax positions could be meticulously planned within the confines of tax laws in different jurisdictions, the reputational damage arising from a lower than "acceptable" level of taxes being paid can be serious.

Governments, especially those in Europe, are likely to intensify their scrutiny on the amount of taxes paid by companies so as to recoup lost revenues. Nearer to home, Australia, China and India have also implemented various measures to close tax loopholes.

In July 2013, the Organisation for Economic Cooperation and Development (OECD), an organisation comprising members from over 30 countries including United States, Japan, France, Germany and United Kingdom, released an action plan to fight against base erosion and profit shifting (BEPS). The plan contains 15 action items, six of which are focused on transfer pricing. The objective of the plan is to ensure that taxes are duly paid in countries where values are created.

Singapore companies that engage in cross-border transactions or have offices in these countries are not insulated and would need to keep abreast of the emerging tax issues in these countries. Given the heightened focus on the amount of taxes paid, it is important for companies to pay closer attention to the review of tax provisions and the adequacy of tax disclosures in the financial statements this year-end.

Are there any uncertain tax positions?

There is a difference between tax planning (which is legal) and tax evasion. When faced with such a situation, management has to exercise their judgement to determine the amount of taxes to provide in the financial statements.

With tax authorities today being more active in invoking anti-avoidance provisions, existing tax structures may have to be assessed to re-affirm that they are robust enough to withstand the scrutiny by tax authorities and in light of the assessment, whether adequate tax provision has been made.

The involvement of an expert such as a tax specialist often provides a greater assurance about the legitimacy of the tax position and at the same time enhances the process used by management to develop their judgements.

What is the effective tax rate of the group?

An extremely low effective tax rate may imply that the taxpayer is not paying its fair share of taxes and could trigger inquiries from interested parties such as tax authorities. The accounting standard on income taxes, FRS 12, provides an avenue for companies to explain the relationship between its tax expense and its accounting profit.

In practice, this explanation is usually in the form of a numerical reconciliation between the tax expense (income) and the product of the accounting profit multiplied by the domestic tax rate or a numerical reconciliation of the effective tax rate to the domestic tax rate.

Companies do, however, need to formulate a clear plan which covers what, when and how more information should be communicated to interested parties to correctly respond to the scrutiny that may come from the disclosures in the financial statements.

2. Provision for foreseeable losses in respect of development properties

Quantitative easing in the United States (U.S.) and the low interest rate environment have fuelled property markets in many countries with excess liquidity. Governments in many countries including Singapore, China, Hong Kong and Malaysia have introduced various property cooling measures to rein in sky rocketing property prices.

While nobody can predict the long-term impact of the measures on the property market, the short-term dampening effect might reduce the demand for properties and consequently, property prices may decrease. Developers that have a large quantity of unsold inventories might be affected if the demand for and prices of properties fall drastically. Furthermore, the possibility of the U.S. Federal Reserve stimulus taper in the foreseeable future and the expectation of a consequential rise in interest rates add further uncertainty to the property markets.

Has an adequate provision been made?

Given the uncertainty over property demand and property prices, property developers should carefully assess the extent of provision required for unsold inventories. A provision is required if the cost is higher than the estimated selling price less costs to complete and sell.

Factors to consider include:

- Market activities - Have recent market activities declined or are market activities expected to decline as a result of the cooling measures?
- Market prices – What is the most recent selling price of the property or other similar properties within the same locality?
- Financial strength of the developer - If the demand in the property market declines substantially, can the developer secure adequate financing from bankers?

As the cooling measures may be targeted at specific types of properties (commercial versus residential) or specific market segments (public housing versus executive condominium) and the measures could differ from country to country and even from state to state, the financial impact will ultimately depend on the specific circumstances of the company.

Based on our experience, the estimation of future selling prices is extremely subjective and highly judgemental. Unless the property is sold after year-end, there often is a wide range of reasonably possible outcomes. The management will have to make a reasonable judgement on the extent of provision required after considering all facts and circumstances.

3. Impairment of non-financial assets

The long-term shift in the Singapore government policy to drive productivity and to reduce reliance on foreign labour could have a profound impact on the cost structure of labour-intensive companies in Singapore. Industries such as the construction industry, ship or rig building industry, hotel industry and retail, food and beverage industry which often rely on lower-skilled foreigner workers are likely to be more affected than others.

Capital-intensive companies that are negatively affected by the policy shift will need to pay attention to impairment of non-financial assets. Non-financial assets such as machinery, patents and goodwill, should not be carried in the balance sheet at more than its recoverable amount. Recoverable amount is the higher of the cash flows receivable from (a) selling the asset or (b) earning net profits through the use of the asset (known as "value in use").

Is there a "triggering event" that indicates that impairment testing is required?

For certain non-financial assets, detailed impairment testing is required only when there is a triggering event that indicates the possible impairment of the tangible or intangible asset. The shift in policy by itself does not necessarily constitute a triggering event; however, a fall in forecasted free cash flows caused by the policy shift, is considered an impairment trigger. As a result, companies affected by the policy shift will more likely be required to carry out a detailed impairment testing of their non-financial assets under FRS 36.

Has the calculation of value in use been updated to reflect current conditions?

Goodwill and intangible assets with indefinite life are however subject to mandatory testing for impairment at least on an annual basis, irrespective of whether there is any indication of impairment. A company would have already carried out its annual testing of impairment on goodwill last year. In light of the policy shift, it is important to ensure prior year's cash flow forecasts are not simply rolled forward when carrying out the impairment testing this year. The forecasts should be updated if there are any planned changes to the cost and revenue base to reflect current expectations.

Action plans?

In making the estimates, much judgement is required. Hence, it is important that appropriate expertise, resources and financial controls are in place. Specialised know-how and deep industry knowledge will be required and involvement of experts from other fields to support the accountants will be critical in reducing the risk of material misstatement.

The accounting standard, FRS 1, requires companies to disclose the major sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Companies significantly affected by the changing business landscape may find the estimates highly uncertain. Adequate disclosures should be made in the financial statements to comply with the requirement of FRS 1 but more importantly, to enable users to see the potential effect on the financial performance that the estimates may have and the sources of estimation uncertainty.

2. Year-end reporting: Top five disclosures to improve this year-end

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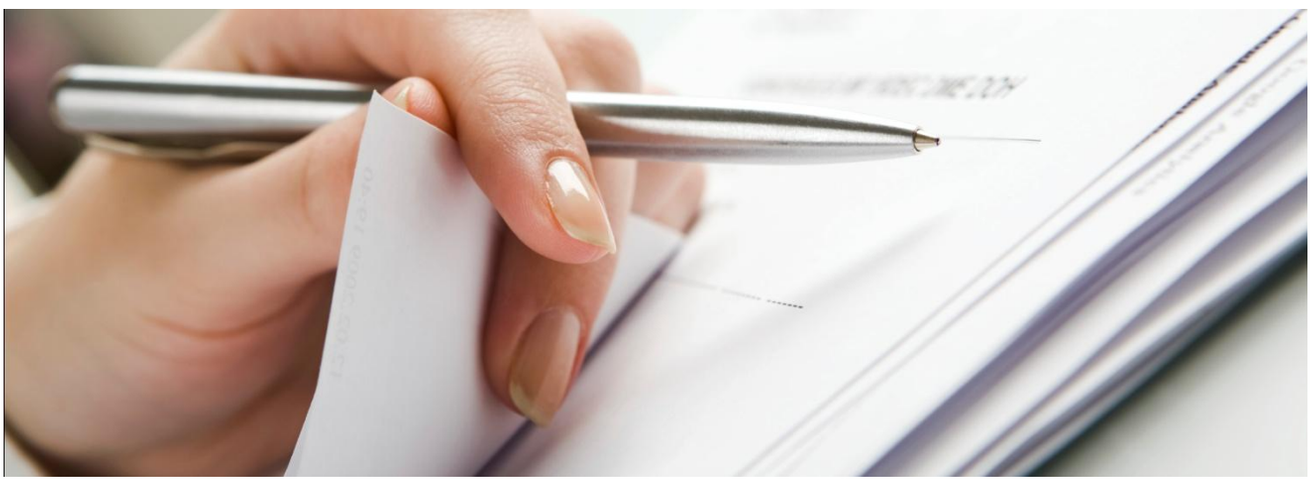

In recent years, an increased emphasis is placed on financial statements presentation and disclosures. Boilerplate disclosures are commonly seen in practice but they often cannot adequately explain the company's financials. Furthermore, regulators have increased their scrutiny on the adequacy and the appropriateness of the disclosures in the financial statements. In this issue, we highlight the top five disclosure areas where improvements can be made.

	Observation	Recommendation
Sources of estimation uncertainty	A KPMG study '*Hard facts about accurate estimates: A study of financial reporting in Singapore'* reveals that more than 80% of the total assets on a typical balance sheet today are estimates that require some form of human judgement. The importance of accurate estimates cannot be underestimated as a 1% fluctuation in the total asset value can result in as much as 38% change in net profit of a given year. However, most financial statements include boilerplate statements that fail to disclose the extent of estimation uncertainty. For example, Developer Limited has existing unsold high-end development properties in Singapore and Malaysia. Developer Limited assessed that the cumulative effects of the property cooling measures will have an immediate dampening effect on the selling prices of the unsold inventories.	Companies significantly affected by the changing business landscape may find the estimates highly uncertain. Adequate disclosures should be made in the financial statements to enable users to see the potential effect on the financial performance that estimation may have. The accounting standard, FRS 1, requires companies to disclose the major sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Developer Limited should consider whether the estimates it has made in respect of the write-down is highly uncertain and carry a significant risk of a material adjustment to the carrying amounts of the development properties within the next financial year. If so, Developer Limited should consider the necessary disclosure to comply with FRS 1.

	Observation	Recommendation
Sources of estimation uncertainty *(continued)*	Developer Limited considered all facts and circumstances and concluded that it will have to write down the development properties by X%. None of the properties are sold after the year-end. In the 2013 financial statements, Developer Limited provides the disclosures required by FRS 2 *Inventories* such as the amount of write-down and the circumstances leading to the write-down.	The nature and extent of the information provided varies according to the nature of the assumptions and other circumstances. In the absence of specific disclosure requirements in other FRSs, the types of disclosures to consider are: (a) the nature of the assumption or other estimation uncertainty; (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
Impact of <u>future</u> adoption of new accounting standards	There is a general expectation that a company should know the potential impact as a result of adoption of new FRSs especially if the new FRSs will be applied in the 1Q 2014 interim financials. For example, A Limited is the sponsor of a Singapore publicly listed real estate investment trust (REIT). Its wholly-owned subsidiaries are the asset and property managers of the REIT and therefore direct the key decisions of the REIT. A Limited holds more than 40% unitholdings in the REIT. A Limited concluded that it will have to consolidate the REIT upon adoption of FRS 110. A Limited is in the process of finalising the quantitative impact arising from consolidating the REIT and states in its financial statements that *"the company is in the process of assessing the impact of the adoption"*.	For FRSs that are effective from 1 January 2014* (e.g. FRS 110, FRS 111 and FRS 112), companies should disclose the known or reasonably estimable information relevant to assessing the possible impact that application of the new FRS will have on the entity's financial statements in the period of initial application. The commonly seen disclosure that *"the company is in the process of assessing the impact of the adoption"* will not provide adequate information on potential impact arising from the impending accounting changes. A Limited should disclose the fact that the group has re-assessed the control conclusion for its investees and as a consequence, the group will have to consolidate the REIT upon adoption of FRS 110. Whilst A Limited has not finalised the precise quantitative impact arising from consolidating the REIT, it could still disclose the directional impact on the financials or an approximation of the potential effect. For example, A Limited could disclose that it expects the change to result in an increase in net assets as at 31 December 2013 by approximately $1.8 billion and an increase in non-controlling interests of approximately $26 million, as well as an increase in profit for 2013 of approximately $15 million. In addition, A Limited could further disclose the assumptions used to determine the estimated effects and add that the group is still in the process of finalising the effect on adoption of the standard. Such disclosures may avoid surprising the users when the 1Q 2014 financials are released to the public. **The list of impending financial reporting changes is available in section 4 of this issue.*

	Observation	Recommendation
Statement of cash flows	There has been less focus placed in the preparation of the statement of cash flows, compared to other primary statements reported in the financial statements. Operating cash flows provide information on the cash generated by the business and are frequently used by analysts. On the other hand, financing cash flows are important for users to predict the claims on future cash flows by long-term capital providers such as lenders and shareholders. If the cash flows are not adequately classified in accordance with the nature of the cash flows, this may confuse users and lead them to the wrong conclusion on the cash flow position of the company. For example, Company A has an amount owing to its holding company that is long outstanding. This amount initially arose from a trading transaction with the holding company. Company A also has some non-trade receivables due from its related companies. Company A presented the movements in these balances as part of changes in working capital in operating cash flows.	Companies should pay adequate attention in the preparation of the statement of cash flows and carefully evaluate the classification of the cash flows. Companies should present the cash flows from operating, investing and financing activities based on the nature of the cash flows. In the case of Company A, it may not always be appropriate to classify inter-company balances as operating activities as the nature of the balances sometimes could be financing in nature. If those balances are loans in nature, they should be classified as: • investing activities in the lender's books, and • financing activities in the borrower's book. They should not be presented as part of operating activities.
Significant accounting policies	Boilerplate disclosures of the accounting policies adopted by companies are commonly seen in practice. However, they often cannot adequately explain the company's actual practices and business model effectively. For example, Company X is a trading company and it sells its products to retail outlets and directly to end customers through a website. In the revenue accounting policy, the company states that it recognises revenue: • when the risks and rewards of the goods have been transferred, and • when it is probable that economic benefits associated with the transaction will flow to the entity.	The accounting policies need to reflect actual practices in order to better communicate to financial statement users, the entity's business model, activities and operations and when risks and rewards of ownership of the goods have transferred based on the specific terms of the sales agreement or the specific shipping term agreed with the customer. Whilst Company X's disclosures are consistent with FRS 18, it did not provide any meaningful information to the users as to how the company recognised and measured revenue arising from the business activities undertaken by the company. In the case of Company X, the company could enhance the disclosure by explaining when it believes that risks and rewards of ownership have transferred to the customers (e.g. when a retail or end customer has acknowledged delivery from Company X).

	Observation	Recommendation
New disclosure standards adopted during the financial year	In 2013, a number of new disclosure requirements came into effect. Disclosures are typically not on the priority list during the closing process. More often than not, new disclosures are added on to the financial statements without sufficient consideration of how the new information could be integrated with other existing disclosures in the financial statements. For example: Bank Limited has previously provided significant disclosure on how it manages the credit risks arising from the use of financial instruments under FRS 107 including the extent of credit protection arising from enforceable master netting agreements. In the 2013 financial statements, Bank Limited continues to provide the credit risk management disclosures and at the same time, include a separate note which contains the complete disclosures required under the amendments to FRS 107 on *Offsetting Financial Assets and Financial Liabilities.* Property Limited has previously provided the disclosures on fair value measurements on financial instruments together with the financial risk management note. All disclosures on the fair value measurements on non-financial assets (e.g. investment properties carried at fair value under FRS 40) are described in the respective notes. On adoption of FRS 113 *Fair value measurement*, certain disclosures are extended to non-financial assets measured at fair value. In the 2013 financial statements, Property Limited continues to reproduce the disclosures in prior year and expanded the existing financial instrument fair value measure disclosures to include non-financial assets.	The new disclosure requirements for this year end relate primarily to: 1. Amendments to FRS 107 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* Under the amendments, more information is to be provided for financial assets and liabilities that are netted on the balance sheet or are subject to netting agreements. 2. FRS 113 *Fair Value Measurement* Under the new standard, fair value hierarchy disclosures are required for both financial and non-financial assets, liabilities and equity measured at or based on fair value and items not measured at fair value but for which fair value is disclosed. Furthermore, there are extensive disclosures for level 3 measurements that are recurring. Companies should ensure that sufficient time is buffered into the year-end process not only to collate the information necessary to comply with the new disclosure requirements but also to consider how best to integrate the new disclosures with other existing disclosures in the financial statements. For example: Bank A should consider whether it makes sense to integrate or link the existing credit risk disclosures and the new offsetting disclosures as some of the information may be duplicated in both notes. In the case of Property Limited, it may make sense to consider integrating or linking the new fair value measurement disclosures for non-financial assets with the related notes as some of the information may be duplicated in both notes.

Five key questions to remind yourself

Before you complete your financial statements, ask yourself these five questions:

1. Have you adequately disclosed the sources of estimation uncertainty?
2. Will your financial position and performance change significantly on future adoption of new accounting standards? Have you adequately disclosed the impact in your financial statements?
3. Have you reflected your cash flow position appropriately in the statement of cash flows?
4. Are the accounting policies customised to your business model and activities?
5. Have you integrated the new disclosure requirements with the existing disclosures in your financial statements?

3. Overview of changes – Legal, regulatory and taxes

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Entities with 31 December 2013 financial year-end should take note of the following legal, regulatory and tax changes in Singapore.

1. Postponement of mandatory XBRL (eXtensible Business Reporting Language) Filing of financial statements with ACRA

On 29 November 2013, ACRA announced that the launch of the BizFin^{x} portal will be postponed in view of technical issues encountered in the deployment phase of the portal. Prior to the launch, companies that are required to file their financial statements will continue to use any of the following filing options in the Annual Return form in the BizFile system:

(a) **Full PDF format (Option C)** - select "Other companies which have been approved by ACRA", with the date of approval as "1 December 2013" and reason stated as "Transitional arrangement for BizFin^{x} launch";

(b) **Partial XBRL format (Option B)** - using FS Manager tool;

(c) **Full XBRL format (Option A)** - using FS Manager tool.

No changes were made to the filing options available to companies. ACRA will provide two weeks' notice before launching the new BizFin^{x} portal, whereupon the above filing options will no longer be available.

Refer to Issue 43 of KPMG Financial Reporting Matters June 2013 to find out more about the new XBRL filing requirements. If you need any clarifications in relation to the new XBRL filing requirements, speak to your KPMG contact or email us at xbrl@kpmg.com.sg.

2. Singapore-listed entities are required to hold general meetings in Singapore from 1 January 2014

On 31 July 2013, SGX introduced new listing rules to promote greater transparency in general meetings and support listed companies and trusts in enhancing their shareholder engagement.

Under the SGX new listing rules, all Mainboard and Catalist companies and trusts are required to hold their general meetings in Singapore from 1 January 2014. Listed entities with 31 December 2013 year-end that have been holding general meetings outside Singapore will have to hold their upcoming annual general meeting in Singapore.

You can access the amended rules here.

3. Singapore-listed entities have to comply with the revised Code of Corporate Governance (with some exception) in 2013

On 2 May 2012, the MAS issued a revised Code of Corporate Governance (the "2012 Code").

All Mainboard and Catalist companies are required to comply with the 2012 code. REITs and Business Trusts with a primary listing on the SGX should also comply with the 2012 Code with necessary adaptations.

Some of the changes arising from the 2012 Code will become effective for the first time for 31 December 2013 year-end entities. The changes expected in 2013 for listed entities with 31 December year-end and 30 June year-end are summarised in the table below. Immediate attention is required for those changes highlighted in bold.

	Effective dates	For 31 Dec year-end listed entities	For 30 June year-end listed entities
The 2012 Code (except for Board composition)	Effective for financial years beginning on or after 1 Nov 2012	**Effective from financial year beginning on 1 Jan 2013**	**Effective from financial year beginning on 1 July 2013**
Board composition changes (except for changes due to Chairman-CEO issues)	Changes to be made at the AGM following the end of the financial year beginning on or after 1 Nov 2012	**Changes to be made latest by 30 April 2014 (i.e. at the AGM following the financial year ending 31 Dec 2013)**	**Changes to be made latest by 31 Oct 2014 (i.e. at the AGM following the financial year ending 30 Jun 2014)**
Board composition changes due to Chairman-CEO issues	Changes to be made at the AGM following the end of the financial year beginning on or after 1 May 2016	Changes to be made latest by 30 April 2018 (i.e. at the AGM following the financial year ending 31 Dec 2017)	Changes to be made latest by 31 Oct 2017 (i.e. at the AGM following the financial year ending 30 Jun 2017)

You can access the 2012 Code here.

4. Salient tax changes that could benefit businesses for the financial year ended 31 December 2013

a) Wage Credit Scheme

Under the Wage Credit Scheme announced during the Singapore Budget 2013, the Government will co-fund 40 percent of the increase (of at least $50) in gross monthly wages of Singaporean employees. An eligible employer who qualifies for the wage credit scheme will receive the payout automatically from the Government. The first payout is expected to be made in March 2014.

If the wage credit is received before the issuance of the financial statements, you can use the actual receipt to account for the wage credit in the financial statements. In situations where the wage credit has not been received, you will have to estimate the amount of wage credit and record the estimated entitlement in the financial statements.

Refer to Issue 44 of KPMG Financial Reporting Matters September 2013 for more details about how to account for the Wage Credit Scheme entitlement.

4. Salient tax changes that could benefit businesses for the financial year ended 31 December 2013 *(continued)*

b) Productivity and Innovation Credit (PIC) scheme and PIC Bonus

One of the key enhancements announced during Singapore Budget 2013 was to the Productivity and Innovation Credit (PIC) Scheme. The PIC Bonus was also introduced at that time.

Read the article on "Productivity and Innovation Credit (PIC) and PIC Bonus" on page 20 to find out whether you are entitled to the benefits and if so, our recommended accounting treatment for your entitlements under the scheme.

c) Other income tax changes

Businesses should consider the impact arising from the following income tax changes when preparing the tax provision computation for this year-end.

▪ Corporate Income Tax Rebate

A corporate income tax rebate of 30 percent for three years (Years of Assessment 2013 to 2015), capped at $30,000 per Year of Assessment would be provided to companies (including registered business trusts) to cope with the rising costs of doing business in Singapore. Entities are entitled to the rebate regardless of their tax residency status, and whether they enjoy a concessionary rate of tax.

The corporate income tax rebate, which is computed based on the tax payable amount after deducting set-offs (e.g. double tax relief, unilateral tax credits, tax remission) but before tax deducted at source, would be automatically computed by the IRAS and companies and registered business trusts need not apply for it.

▪ Rationalisation of Start-up Company Exemption Scheme

Investment holding companies[1] and property development companies[2] incorporated from 26 February 2013 are excluded from the start-up company exemption scheme (SUTE). Such companies nevertheless continue to be able to benefit from the partial tax exemption regime.

Companies not excluded from the SUTE are as follows:
- A company that derives income from the carrying on of a trade or business subject to tax under Section 10(1)(a) of the Income Tax Act, and also investment income from its investment holding activity
- A company whose principal activity is not investment holding (e.g. a manufacturing company) and which derives only passive income, for example, in its first year of assessment

[1] An investment holding company is one whose principal activity is that of investment holding and which derives only passive income or investment income such as rent, dividends or interest.

[2] A property development company is one which typically buys or leases land and arranges for a building to be built on land in order to lease, manage or sell the building.

▪ Enhancements to the Financial Sector Incentive Scheme and tax incentives for promoting the debt market

The Financial Sector Incentive Scheme (FSI Scheme) comprising 12 separate awards granting concessionary tax rates on income from qualifying financial activities was due to expire on 31 December 2013 (other than the FSI-Islamic Finance (FSI-IF) award which was due to expire earlier, on 31 March 2013).

In Budget 2013, it was announced that the FSI Scheme (excluding the FSI-IF Award which would be allowed to lapse and become subsumed under the FSI-Standard Tier Award) would be extended for five years to 31 December 2018.

Refer to Issue 18 of KPMG Tax Alert August 2013 for a discussion of the enhancements to the FSI Scheme and tax incentives for promoting the debt market.

4. Overview of changes – Financial Reporting Standards

This article is contributed by:

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In this section, we summarise the significant changes in FRSs that are effective for the first time for an entity with an annual period beginning on 1 January 2013.

In addition, we have included changes in FRSs that have been issued but are not yet effective. Entities should consider the implications arising from these impending FRSs and make the necessary disclosures in their 2013 financial statements.

A. New FRSs effective for annual periods beginning on 1 January 2013

Standard	Summary of changes	Effective date (annual periods beginning)	Relevant publications
Amendments to FRS 1 – *Presentation of Items of OCI*	The amendments introduce changes to enhance the presentation of items of other comprehensive income (OCI) and: • Preserve the option to present profit or loss and OCI in two statements; • Require that items of OCI that may be reclassified to profit or loss in the future be presented separately from items that would never be reclassified to profit or loss; and • Change the title of the *statement of comprehensive income* to the *statement of profit or loss and other comprehensive income*. However, an entity is still allowed to use other titles. The amendments to FRS 1 are to be applied retrospectively.	1 July 2012	*In the Headlines – Issue 2011/19*

A. New FRSs effective for annual periods beginning on 1 January 2013 *(continued)*

Standard	Summary of changes	Effective date (annual periods beginning)	Relevant publications
FRS 19 *Employee Benefits* (revised 2011)	The primary reason for issuing FRS 19R is to improve the accounting for defined benefit plans by: • eliminating the option to defer recognition of re-measurement gains and losses (known as the 'corridor method'); and • requiring re-measurements to be presented in other comprehensive income, so as to separate these changes from the results of an entity's day-to-day operations. As the Central Provident Fund that most Singapore entities participate in is a form of defined contribution plan, the change is expected to have limited impact in Singapore. Other changes that may have wider implications to Singapore entities include changes in the distinction between short-term and other long-term employee benefits, as well as changes in the recognition rules for termination benefits. The amendments are generally to be applied retrospectively, with the exception of two areas of transitional provisions.	1 January 2013	*Financial Reporting Matters – June 2012*
Amendments to FRS 107 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*	The amendments to FRS 107 prescribe enhanced disclosures in the financial statements to present the effect or potential effect of netting arrangements on an entity's financial position. The enhanced disclosures are required for all recognised financial instruments that are: • Set off in the statement of financial position in accordance with the offsetting criteria in FRS 32 • Subject to an enforceable master netting arrangement or other similar agreement, including those that are not set off in the statement of financial position because they do not meet the offsetting criteria in FRS 32. These would include, amongst others, any related rights to financial collateral pledged or received. The enhanced disclosures required by the amendments to FRS 107 are to be provided retrospectively.	1 January 2013	*Financial Reporting Matters – December 2012*
FRS 113 *Fair Value Measurement*	FRS 113 replaces the fair value measurement guidance contained in individual FRSs with a single source of fair value measurement guidance. FRS 113 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other FRSs. To improve consistency of reporting, FRS 113 provides a definition of fair value, establishes a framework for measuring fair value and sets out the disclosure requirements for fair value measurements. Key aspects of the guidance include: • exit price principle • unit of account (one share versus a holding of X% of shares) • own credit risk consideration for financial liabilities • highest and best use consideration for non-financial assets FRS 113 is to be applied prospectively.	1 January 2013	*Financial Reporting Matters – March 2013*

A. New FRSs effective for annual periods beginning on 1 January 2013 *(continued)*

Standard	Summary of changes	Effective date (annual periods beginning)	Relevant publications
Annual Improvements to FRS	The fourth batch of annual improvements encompasses six amendments to five standards. The amendments are mainly minor clarifications or removals of unintended inconsistencies between FRSs. The amendment to FRS 1 *Presentation of Financial Statements* may be of particular interest. The amendment clarifies that in the event of a change in accounting policy, reclassification or restatement, a third balance sheet (as at the beginning of the preceding period) is only required if the change has a material effect on the information in the third balance sheet. In addition, related notes to the third balance sheet need not be presented. The amendments are to be applied retrospectively.	1 January 2013	*IFRS Newsletter – The Balancing Items, Issue 2 May 2012*
Other amendments	Other amendments that are also effective for the first time but are expected to have limited application impact in Singapore are: • Amendments to FRS 101 *First-time Adoption of FRSs – Government Loans* • INT FRS 120 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013	*In the Headlines – Issue 2012/03*

B. New FRSs **not** yet effective for annual periods beginning on 1 January 2013

When an entity has not applied a new FRS or an amendment to FRS that has been issued but is not yet effective, the entity shall disclose this fact and known or reasonable estimable information relevant to assessing the potential impact that the application of the new FRS or amendment will have on the entity's financial statements.

Standard	Summary of changes	Effective date (annual periods beginning)	Relevant publications
Amendments to FRS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*	The amendments to FRS 32 solely provide further clarification and guidance on the application of the offsetting criteria of FRS 32; there is no change to the existing principles of offsetting in FRS 32. The amendments to FRS 32 clarify that the right of set-off must not be contingent on a future event, and must be legally enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and its counterparties. The amendments further clarify situations where settlement on a gross basis that does not occur simultaneously (e.g. settlement through central counterparties or clearing houses) may satisfy the offsetting criteria. The amendments are to be applied retrospectively. Earlier application is permitted.	1 January 2014	*Financial Reporting Matters – December 2012*

B. New FRSs **not** yet effective for annual periods beginning on 1 January 2013 *(continued)*

Standard	Summary of changes	Effective date (annual periods beginning)	Relevant publications
FRS 110 *Consolidated Financial Statements* and FRS 27 *Separate Financial Statements*	FRS 110 replaces the existing consolidation requirements under FRS 27 (2009) *Consolidated and Separate Financial Statements* and INT FRS 12 *Consolidation – Special Purpose Entities*. FRS 110 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with its investee and has the ability to affect those returns through its power with the investee. A single control model is applied in the assessment for all investees, including special purpose entities that are currently within the scope of INT FRS 12. FRS 110 carries forward the existing consolidation procedures from FRS 27 (2009). FRS 110 is to be applied retrospectively only when the adoption of FRS 110 results in a change in the control conclusion.	1 January 2014	*Financial Reporting Matters – June 2012*
FRS 111 *Joint Arrangements* and FRS 28 *Investments in Associates and Joint Ventures*	FRS 111 replaces the existing accounting for joint ventures (now joint arrangements) under FRS 31 *Interests in Joint Ventures* and INT FRS 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. FRS 28 (2011) *Investments in Associates and Joint Ventures* was also issued to make limited amendments to the accounting for associates. FRS 111 prescribes the accounting for joint arrangements in both consolidated and separate financial statements. The adoption of this standard would require entities to re-assess and classify its joint arrangements as either joint ventures or joint operations based on the rights and obligations arising from the joint arrangements, rather than based on the structure of the arrangement as currently prescribed by FRS 31. FRS 111 requires joint ventures to be accounted for using the equity method and removes the existing accounting policy choice of proportionate consolidation under FRS 31; while joint operations are required to apply line-by-line accounting for their share of the underlying assets and liabilities, which is similar to proportionate consolidation. FRS 111 and revised FRS 28 (2011) are to be applied retrospectively, with certain transitional provisions being provided by the standards to simplify restatements.	1 January 2014	*Financial Reporting Matters – September 2013*
FRS 112 *Disclosure of Interests in Other Entities*	FRS 112 integrates the disclosure requirements for all interests held in other entities into a single disclosure standard. The type and extent of disclosure information to be presented are prescribed by the standard, and are consistent across all interests held in subsidiaries, joint arrangements, associates and unconsolidated structured entities. These disclosure requirements prescribed by FRS 112 are also more extensive as compared with those in the respective existing standards. Reporting entities are encouraged to provide information required by FRS 112 earlier than the effective date. Providing some of the disclosures required by FRS 112 does not compel the entity to comply with all the requirements of FRS 112 or to early adopt the entire consolidation suite (i.e. FRS 110, FRS 111, FRS 112, FRS 27 (2011) and FRS 28 (2011)). FRS 112 is to be applied retrospectively.	1 January 2014	*In the Headlines* – Issue 2011/16* ** Note that internationally, the consolidation suite is effective one year earlier, i.e. for annual periods beginning on or after 1 January 2013.*

B. New FRSs **not** yet effective for annual periods beginning on 1 January 2013 *(continued)*

Standard	Summary of changes	Effective date (annual periods beginning)	Relevant publications
Transition Guidance **(Amendments to FRS 110, FRS 111 and FRS 112)**	These amendments simplify the transition to the consolidation suite and provide additional relief from disclosures, for example: • The date of initial application is now defined in FRS 110 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. If the consolidation conclusion remains unchanged at the date of initial application, then no adjustments to the previous accounting are required. • Restatement of comparatives is limited to the immediately preceding period; this applies to the full consolidation suite. In respect of FRS 111, the amendments also clarify that any restatement of comparatives and related disclosures required under FRS 111 are limited to those of the immediately preceding period.	1 January 2014	*Financial Reporting Matters – September 2012*
Investment Entities **(Amendments to FRS 110 , FRS 112 and FRS 27)**	*Investment Entities* defines an "investment entity" and provides an exception for such entities to consolidate their subsidiaries. Instead, investment entities are required to recognise their investments in controlled investees at fair value through profit or loss. In addition, in all instances permitted by IFRS, investment entities are required to account for substantially all investments under the fair value model, including investments in associates and joint ventures and investment property. The exception can only be applied by parent companies that qualify themselves as investment entities. The amendments have also added new disclosures for unconsolidated subsidiaries. The amendments are to be applied retrospectively.	1 January 2014	*Financial Reporting Matters – December 2012*
Amendments to FRS 36 ***Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets***	The amendment to FRS 36 was issued to reverse unintended disclosures that became effective on 1 January 2013. They address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Prior to the amendments, an entity was required to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated – i.e. not just those for which an impairment loss is recognised or reversed. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value less costs of disposal: • the level of the fair value hierarchy within which the fair value measurement is categorised; and • the valuation technique(s) used for fair value measurements categorised within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made. The amendments are to be applied retrospectively. Earlier application is permitted.	1 January 2014	*IFRS Breaking News*

B. New FRSs not yet effective for annual periods beginning on 1 January 2013 *(continued)*

Standard	Summary of changes	Effective date (annual periods beginning)	Relevant publications
Amendments to *FRS 39 Financial Instruments: Recognition and Measurement* - *Novation of Derivatives and Continuation of Hedge Accounting*	The amendments to FRS 39 provide relief for novation of derivatives. This is to address the changes to laws and regulations on over-the-counter (OTC) derivatives in several jurisdictions where entities are required or provided with incentives to novate many OTC derivatives to a clearing counterparty. The amendments provide a limited exception to the existing requirements, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria. The amendments are to be applied retrospectively. However, if an entity had previously discontinued hedge accounting as a result of a novation, then the previous hedge accounting (pre-novation) for that relationship cannot be reinstated. Earlier application is permitted.	1 January 2014	*In the Headlines* – Issue 2013/13
INT FRS 121 *Levies*	The interpretation provides guidance on accounting for levies in accordance with the requirements of FRS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the obligating event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation also provides guidance on how to recognise a liability depending on when the triggering event occurs. The amendments are to be applied retrospectively. Earlier application is permitted.	1 January 2014	*In the Headlines* – Issue 2013/09

Will your financial position and performance change significantly on future adoption of new accounting standards? Have you adequately disclosed the impact in your financial statements?

It should be noted that appropriate sufficient disclosure of the potential effects of the standards is required in the financial statements for this year-end.

Stakeholders would reasonably expect that companies would have substantially completed their assessment of the impact of the new standards, in particular the new suite of consolidation standards, and relevant disclosures would be made.

5. Productivity and Innovation Credit (PIC) Scheme and PIC Bonus

This article is contributed by:

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Have you incurred training or research and development expenses, or purchased automation equipment or intellectual property rights during the financial year? If so, you may qualify for tax benefits under the PIC scheme and the PIC Bonus.

This article illustrates with an example the recommended accounting treatments for your entitlements.

Under the PIC scheme, businesses can enjoy 400 percent tax deduction/allowance and/or cash payout for investments in innovation and productivity. The PIC benefits are available from Year of Assessment (YA) 2011 to YA 2015.

From YA 2013 to YA 2015, businesses can also enjoy a PIC Bonus. This is a dollar-for-dollar matching cash bonus capped at $15,000 for YA 2013 to YA 2015 given on top of the existing 400 percent tax deduction/allowance and/or cash payout.

Businesses may also opt to defer tax payment for YA 2011 to YA 2014 based on qualifying PIC expenditure incurred in the corresponding financial years 2011 to 2014. For every dollar of qualifying PIC expenditure incurred in the current financial year, businesses have the option to defer a dollar of tax payable in the current YA. The amount of tax to be deferred would be the lower of tax payable assessed for the current YA and the qualifying PIC expenditure incurred in the current financial year, up to $100,000 per YA. The tax deferred will be due for payment when the first assessment for the following YA is raised.

Details of the PIC scheme and PIC Bonus are given in the table below.

1. Details of the PIC scheme and PIC Bonus

	PIC		PIC Bonus
	400% tax deduction/ allowance	**Cash payout**	
Who is eligible?	All businesses which incur qualifying expenditure[1] (net of grants & subsidies) during financial years 2010 to 2014 in any of the following six qualifying activities: • Acquisition/ leasing of PIC information technology (IT) and automation equipment[2] • Training of employees • Acquisition of Intellectual Property Rights (IPRs) [expanded to include IPR in-licensing from YA 2013] • Registration of IPRs • R&D activities [expanded to include R&D cost sharing arrangements with effect from YA 2012] • Approved design projects.		All businesses that spend a minimum of $5,000 in PIC qualifying expenditure (net of grants & subsidies) during accounting years 2012 to 2014
Relevant YAs for which the tax benefits are available	YA 2011 to YA 2015		YA 2013 to YA 2015
What are the tax benefits?	400% tax deduction/ allowance on up to $400,000 of spending per year in each of the six qualifying activities The spending cap per activity can be combined as follows: • $800,000* for YA 2011 and YA 2012 combined • $1,200,000* for YA 2013 to YA 2015 combined. * *Only if the business is carrying on a trade/ business for the relevant YAs. Otherwise, the combined cap is reduced accordingly.*	Option to convert up to $100,000 of total spending in all six activities for each YA into a non-taxable cash payout, in lieu of the tax deduction/ allowance. The maximum cash payout is: • $60,000* for YA 2011 and YA 2012 (30% x combined spending cap of $200,000) • $60,000 for each YA from YA 2013 to YA 2015 (60% x $100,000). * *Only if the business is carrying on a trade/ business for the relevant YAs. Otherwise, the combined cap is reduced accordingly.*	A dollar-for-dollar matching cash bonus, subject to overall cap of $15,000 for all 3 YAs combined. The PIC bonus is given in addition to existing PIC benefits and is taxable.
Qualifying conditions	Businesses must ensure that expenditure qualifies for PIC before making a claim.	• Must carry on business operations in Singapore and has met the 3-local-employees[3] requirement . • The minimum qualifying expenditure for each cash payout option application is $400.	• Must have made a claim for 400% tax deduction/ allowance and/or cash payout; • Must carry on business operations in Singapore and has met the 3-local-employees requirement[3];

1 Refer to the table on page 27 for more details on what constitutes qualifying expenditure under each of the six qualifying activities
2 The list of PIC IT and automation equipment (updated following Budget 2013 announcement to allow more equipment to qualify for PIC automatically) can be found on the IRAS website.
3 A business meets the 3-local-employees requirement if it contributes CPF on the payrolls of at least 3 local employees in the last month of its basis period for a qualifying YA. "Local employees" refer to Singaporeans and Singapore permanent residents with CPF contributions but exclude sole-proprietors, partners under contracts for services and shareholders who are directors of the company.

	PIC		PIC Bonus
	400% tax deduction/ allowance	Cash payout	
Minimum ownership period requirement	• Must meet minimum ownership period requirement of one year for acquisition of PIC automation equipment and acquisition/ registration of IPR. Otherwise, IRAS will claw back or recover the enhanced deduction/ allowance, cash payout and/or PIC Bonus. • For acquisition of IPR, a proportionate amount of cash payout/ PIC Bonus will also be clawed back if within two to five years, the IPR comes to an end without being subsequently revived, or all/ part of the IPR was sold/ transferred/ assigned, or the business has permanently ceased. • For disposal of PIC IT and automation equipment within one year, the claw-back/ recovery provisions can be waived under certain circumstances.		
Other features	Subject to existing tax provisions, any unutilised tax deductions/ allowances under the PIC that cannot be fully set-off against other income of the business can be: • carried back to the immediate preceding YA • transferred under the Group Relief System; or • carried forward to future YAs.	Election for conversion to cash payout is irrevocable, and for registration/ acquisition of IPRs and purchase of PIC IT and automation equipment, it must be made on a "per filing", "per IPR" or "per equipment" basis. This means that any excess deductions/ allowances on the same IPR/ equipment exceeding the conversion cap will be forfeited and will not qualify as tax deductions in the income tax return.	The maximum amount of PIC Bonus a business is eligible for is not affected by the number of periods in which it carries on business operations. For instance, if no business operations were carried on during the basis period relating to YA 2013, the business is still eligible for the maximum PIC Bonus of $15,000 for YA 2014 and YA 2015, as long as all other qualifying conditions are met.
When and how to apply?	Other than design projects, no prior approval is required. Claim for the enhanced deductions/ allowances in the income tax returns for the relevant YA, and submit return by the filing due date.	File PIC Cash Payout Application Form anytime • after financial year end (for YA 2011 and YA 2012) or • after end of relevant financial quarter (for YA 2013, YA 2014 and YA 2015). In all cases, the option must be exercised no later than the due date for filing of income tax return for the relevant YA.	No separate application needed. IRAS will compute PIC Bonus based on PIC qualifying expenditure as declared in income tax return or PIC Cash Payout Application Form, subject to overall cap of $15,000 for all three YAs. Businesses can expect to receive their PIC bonus within three months from filing their income tax returns or within three weeks from approval of the cash payout claims.

2. Recommended accounting treatment for PIC enhanced deductions / allowances

From an accounting perspective, enhanced tax deductions or allowances that are available only upon making qualifying expenditure are generally regarded as investment tax credits (ITCs).

The accounting for ITCs is, however, not directly addressed in FRSs. In practice, ITCs are generally accounted for using either FRS 12 *Income Taxes* or FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* by analogy.

An entity therefore has to make an accounting choice of applying either FRS 12 or FRS 20 to account for the enhanced tax deduction or allowance. The choice depends on management assessment of the approach that best reflects the economic substance of the ITC, taking into consideration all relevant facts and circumstances. Factors that might be considered in this assessment include:

Factors to consider	Comments
In addition to the condition that expenditure is made on a particular asset or activity, are there any other conditions attached to the benefits available under the tax incentive scheme that relate to the operating activities of the entity?	Generally, when substantive conditions are attached, applying FRS 20 would be more appropriate.
Does the tax incentive scheme involve the receipt of cash (or refundable tax credit)?	Generally, when cash or tax is refundable, applying FRS 20 would be more appropriate.
Is the utilisation of the tax benefits under the tax incentive scheme dependent on current or future taxable income or tax liability?	Generally, if the utilisation of the tax benefits is dependent on current or future taxable income or tax liability, applying FRS 12 would be more appropriate.

The approach, once selected, must be applied consistently to similar tax incentives. The two possible accounting treatments of ITCs are outlined below:

i) Applying FRS 12 by analogy

ITCs are presented in profit or loss as a deduction from current tax expense to the extent that an entity is entitled to claim the credit in the current reporting period.
Any unused ITC is recognised as a deferred tax asset and income if it meets the recognition criteria.

ii) Applying FRS 20 by analogy

ITCs are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

The ITC initially is shown in the statement of financial position as a receivable from the government when there is reasonable assurance that an entity will comply with the conditions of the ITC and the ITC will be received. If the entity is claiming the enhanced tax deduction/allowance, the receivable from the government is offset against current tax payable when the entity is entitled to claim the ITC.

For ITCs relating to acquisition of long-term assets, the ITC is either:

- initially recognised as deferred income and subsequently amortised to profit or loss over the useful life of the long-term asset either as "other income" or as a deduction from the related expense; or
- initially offset against the cost of the long-term asset and thereby reducing future depreciation or amortisation expense.

For all other ITCs, the ITC is initially recognised as deferred income and subsequently presented in profit or loss either as "other income" or as a deduction from the related expense as appropriate.
Under the PIC scheme, an entity has to reflect its election whether to claim the tax deduction/allowance or convert the deduction/allowance into a cash grant in its tax return.

Therefore, if an entity expects to convert the qualifying deduction/allowance into a cash grant when it files its tax return, this should be reflected in the income tax provision for financial reporting purposes. In such circumstances, we believe that it will be more appropriate for the entity to apply FRS 20 to account for the cash grant.

ii) Applying FRS 20 by analogy

On the other hand, if the entity expects to claim the qualifying deduction/allowance when it files its tax return, the entity will have to select an accounting treatment that best reflects the economic substance of the benefits.

The treatment, once selected, must be applied consistently to other similar tax incentives.

3. Recommended accounting treatment for PIC Bonus

The PIC bonus is a cash payout that is independent of the amount of taxable profit or tax liability of the entity. Therefore, unlike the PIC enhanced deductions/allowances where two accounting approaches may be applicable, the PIC Bonus is accounted for as a government grant within the scope of FRS 20. The recognition, measurement and presentation guidance above relating to PIC enhanced deductions/allowances under the FRS 20 approach, applies equally to the PIC Bonus. As the PIC Bonus is taxable, entities would also have to account for any current or deferred taxes arising from the recognition of the PIC Bonus grant.

Illustrative example

During the financial year ended 31 December 2013, Company A purchased prescribed PIC IT and automation equipment amounting to $100,000. The prescribed equipment is depreciated for accounting purposes over a period of three years. Furthermore, Company A plans to claim capital allowance for the cost of the prescribed equipment over one year and has sufficient profit in 2013 to utilise all tax allowances.

As at 31 December 2013, Company A has the following choices under the PIC scheme:

Option A:
Claim a 400 percent tax allowance on the equipment expenditure against its taxable income. If Company A chooses this option, the PIC benefits, assuming an applicable tax rate of 17 percent, are as follows:

	Base	PIC		PIC Bonus	Total
Tax allowance	$100,000	$300,000	Cash grant	$15,000	
Applicable tax rate	17%	17%	Applicable tax rate	17%	
Tax savings	$17,000	$51,000	Tax expense	$(2,550) *	
Net benefits	$17,000	$51,000	Net benefits	$12,450	**$80,450**

** PIC Bonus is taxable in the YA relating to the year of receipt (i.e. on a receipt basis)*

Option B:
Convert the qualifying expenditure to cash at the rate of 60 percent. If Company A chooses to convert the qualifying expenditure to cash, Company A will receive a non-taxable cash payout of $60,000 ($100,000 x 60%) from the government and the qualifying expenditure converted to cash will no longer be available for tax allowance.

	PIC	PIC Bonus	Total
Cash payout	$60,000	$15,000	
Applicable tax rate	0%	17%	
Tax expense	$0	$(2,550) *	
Net benefits	$60,000	$12,450	**$72,450**

** PIC Bonus is taxable in the YA relating to the year of receipt (i.e. on a receipt basis)*

Question

Applying the above guidance, how should Company A account for the benefits under the PIC scheme and PIC Bonus as at 31 December 2013?

Analysis

Company A should measure its current and deferred taxes as at 31 December 2013 based on its expectations of elections that it will make in filing its tax return.

If Company A expects to claim the PIC enhanced allowance, then Company A should make an assessment as to whether it is more appropriate to apply FRS 12 or FRS 20 by analogy.

If Company A expects to convert the qualifying expenditure into the PIC cash payout when it files its YA2014 tax return, it is generally more appropriate for Company A to apply FRS 20 to account for the cash grant.

Assume that Entity A receives the PIC Bonus and in the case of Option B, the cash payout in 2014.

The relevant accounting entries are illustrated below:

	Company A expects to claim the PIC enhanced allowance (Option A)		Company A expects to convert the qualifying expenditure into PIC cash payout (Option B)
	PIC using FRS 12 approach	PIC using FRS 20 approach	PIC using FRS 20 approach
Recognition of PIC enhanced allowance	-	Dr Government grant receivable $51,000[1, 3] Cr Deferred income $51,000 (PIC enhanced allowance)	
Recognition of PIC Bonus	Dr Government grant receivable $15,000[1, 2] Cr Deferred income $15,000 (PIC Bonus)	Dr Government grant receivable $15,000[1, 2] Cr Deferred income $15,000 (PIC Bonus)	Dr Government grant receivable $15,000[1, 2] Cr Deferred income $15,000 (PIC Bonus)
Recognition of PIC cash payout	-	-	Dr Government grant receivable $60,000[1, 4] Cr Deferred income $60,000 (PIC cash payout)
On recognition of the depreciation expense in P&L (per annum)	Dr Deferred income $5,000[5] Cr Other income or depreciation expense $5,000	Dr Deferred income $22,000[5] Cr Other income or depreciation expense $22,000	Dr Deferred income $25,000[5] Cr Other income or depreciation expense $25,000
Recognition of tax effects – PIC base and enhanced allowance	Dr Current tax payable $68,000[6] Cr Current tax benefit $68,000 (PIC enhanced allowance claimed)	Dr Current tax payable $68,000[6] Cr Government grant receivable $51,000[7] Cr Current tax benefit $17,000[8] (PIC enhanced allowance claimed)	
Recognition of deferred tax on automation equipment	Dr Deferred tax expense $11,333[9] Cr Deferred tax liability $11,333 (Deferred tax on PIC IT and automation equipment)	Dr Deferred tax expense $11,333[9] Cr Deferred tax liability $11,333 (Deferred tax on PIC IT and automation equipment)	-
Recognition of deferred tax effects – PIC Bonus	Dr Deferred tax expense $850[10] Cr Deferred tax liability $850 (Deferred tax on PIC Bonus)	Dr Deferred tax expense $850[10] Cr Deferred tax liability $850 (Deferred tax on PIC Bonus)	Dr Deferred tax expense $850[10] Cr Deferred tax liability $850 (Deferred tax on PIC Bonus)

1 Government grant is recognised when there is reasonable assurance that Company A will comply with the conditions of the grant and the grant will be received.
2 Maximum PIC Bonus of $15,000 claimed
3 $51,000 = PIC enhanced allowance of $51,000 ($300,000*17%)
4 $60,000 = PIC cash payout of $60,000 ($100,000*60%)
5 Recognition of grant in profit or loss to match depreciation of the PIC IT and automation equipment over three years
6 $68,000 = base allowance of $17,000 ($100,000*17%) + PIC enhanced allowance of $51,000 ($300,000*17%)
7 $51,000 = PIC enhanced allowance ($300,000 x 17%)
8 $17,000 = Base allowance ($100,000 x 17%)
9 Deferred tax liability relates to the temporary difference between the net book value of the automation equipment as at 31/12/13 ($66,667) and the tax written down value in the tax return ($nil) multiplied by the applicable tax rate of 17 percent
10 PIC Bonus of $15,000 is assumed to be received in 2014 and hence taxable in YA2015 at 17 percent. Deferred tax liability relates to the temporary difference between the net book value of the PIC Bonus deferred income balance as at 31/12/13 ($10,000) and the tax base ($15,000) multiplied by the applicable tax rate of 17 percent.

The amounts recorded for this transaction as at 31 December 2013 would be as follows:

	Company A expects to claim the PIC enhanced allowance (Option A)		Entity A expects to convert the qualifying expenditure into PIC cash payout (Option B)
	FRS 12 approach	FRS 20 approach	FRS 20 approach
Income Statement (extract)			
Depreciation expenses	(33,333)	(33,333)	(33,333)
Government grant income[11]	5,000	22,000	25,000
Loss before tax	(28,333)	(11,333)	(8,333)
Tax benefits			
- Current tax benefit / (expense)	68,000	17,000	-
- Deferred tax (expense)	(12,183)	(12,183)	(850)
Profit/(Loss) after tax	27,484	(6,516)	(9,183)
Statement of financial position (extract)			
Automation equipment	66,667	66,667	66,667
Government grant receivable	15,000	15,000	75,000
Deferred income - government grant [12]	(10,000)	(44,000)	(50,000)
Deferred tax liability	(12,183)	(12,183)	(850)
Current tax receivable[13] / (payable)	68,000	68,000	-
Retained earnings/ (losses)	27,484	(6,516)	(9,183)

[11] The government grant income can be presented either as other income or a reduction in depreciation expense.
[12] The deferred income relating to government grant can be presented as deferred income or offset against the cost of the automation equipment.
[13] Assume Company A has sufficient taxable profits for the current year to offset the current tax receivable.

As can be seen in the above illustrative example, the selection of the accounting approach (income tax credit under FRS 12 or government grant under FRS 20) is very important as applying one or the other standard by analogy will have different recognition, measurement, presentation and disclosure consequences.

In the above example, the total tax benefit relating to the PIC enhanced allowance is recognised immediately as income if FRS 12 is applied (Option A – FRS 12 approach) but the same amount is recognised as income over three years if FRS 20 is applied (Option A – FRS 20 approach).

FRS *1 Presentation of Financial Statements* requires disclosure of critical judgements made by management in the process of applying the entity's accounting policies. In situations where the effect on the amounts recognised on the financial statements is significant, the necessary disclosure under FRS 1 should not be forgotten.

Summary of the types of qualifying expenditure for each of the six qualifying activities

	Qualifying expenditure (net of any grant/ subsidy by Government or statutory board)	Remarks
IT and automation equipment	Costs to purchase/ lease equipment that are listed in the PIC IT and automation Equipment List available on the IRAS website. If the automation equipment is not in the PIC IT and automation Equipment List, the business can apply to IRAS to have the equipment approved for PIC on a case-by-case basis.	Includes wide range of equipment & software for automating processes. For lease payment of software, the lessee must be the end user having only the right to use the software and not the right to reverse engineer, decompile, or disassemble the software, or exploit the copyright of the software.
Training	Costs on external training as well as in-house training which are Workforce Development Agency (WDA) certified or Institute of Technical Education (ITE) certified or other prescribed courses. From YA 2012 to YA 2015 • In-house training not WDA-accredited or ITE-approved/ certified, subject to a cap of $10,000 per YA • Training for prescribed agents/representatives (e.g. insurance agents, financial advisers, real estate agents), subject to certain conditions	Covers course fees paid to external training service providers, remuneration of in-house trainers for delivery of course, rental of external training premises, cost of training materials, stationery and refreshments provided during course. Does not cover remuneration of in-house trainers for other duties including preparation of training materials, employees attending the courses (absentee payroll), accommodation, travelling/ transport and overheads like rental & utilities.
Acquisition of IPRs	Costs to acquire IPRs for use in trade/ business in Singapore (exclude EDB approved IPRs and IPRs related to media & digital entertainment content). From YA 2013 to YA 2015 Costs incurred on IPR in-licensing (i.e. license fees incurred on licensing of qualifying IPRs).	IPRs cover patent, copyright, trademark, registered design, geographical indication, layout design of integrated circuits, trade secret or information, and plant variety. Does not cover legal fees, registration fees, stamp duty & other acquisition costs. Expenditure incurred for the transfer of ownership of IPRs and legal fees and other incidental costs arising from the licensing of such rights will not qualify for PIC. Licensee cannot claim PIC benefits if it licensed the IPR from a related party.
Registration of IPRs	Costs to register patents, trademarks, design & plant variety	Covers official fees paid to respective Registry (e.g. for filing application/ registration) and professional fees paid to agent.
R&D	Staff costs, consumables and outsourced payments for R&D activities From YA 2012 to YA 2015 • Expenditure incurred on R&D cost-sharing agreements	R&D may be carried out in Singapore or overseas. If the R&D is done overseas, it must be related to the trade in Singapore. Qualifying expenditure for outsourced payments and R&D cost-sharing expenditure would generally be deemed to be 60% of the involved amounts or shared costs. Development of software for internal routine administration of businesses will not be considered as R&D.
Design	Costs incurred in Singapore to create new products & industrial designs	DesignSingapore Council will administer the scheme and approve design expenditure.

6. International developments

In the spotlight – Clarified offsetting requirements and central clearing

For details, refer to: IFRS Newsletter: The Bank Statement – Clarified offsetting requirements and central clearing

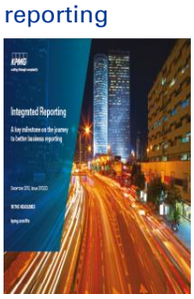
In a rapidly changing regulatory environment, banks continue to face challenges in assessing the impact on their accounting.

One such area is in applying financial instruments accounting to central clearing arrangements. Banks may need to consider the impact of the recently clarified offsetting requirements in IAS 32 Financial Instruments: Presentation, and those acting as intermediaries need to determine whether they are acting as 'principal' or as their clients' 'agent'.

Meanwhile, the IASB reached several important tentative decisions in September 2013 on the impairment, classification and measurement of financial instruments, which will be key to the future of IFRS 9 Financial Instruments.

> "With the deadline of 1 January 2014 fast approaching, the implementation of the clarified offsetting requirements in IAS 32 still presents challenges. Banks that have not yet started looking at what these mean for them should do so without delay."
>
> Christian Kusi-Yeboah, Banking Accounting Advisory, KPMG in the UK

The future of corporate reporting



For details, refer to: In the Headlines – Integrated Reporting

The Integrated Reporting Framework is an ambitious attempt to reshape the direction and focus of corporate reporting, aiming to provide investors with a more complete picture of business value by extending reporting beyond historical financial performance. The framework was launched on 9 December 2013 by the International Integrated Reporting Council (IIRC), following a period of consultation that received an extensive response.

The framework is likely to be of particular interest to those companies already looking to improve the quality of their narrative reporting as a basis for a better dialogue with their investors.

> "It is time to move business reporting beyond merely a discussion of past financial performance. Integrated Reporting can play a key role in the drive for better business reporting."
>
> Larry Bradley, Global Head of Audit, KPMG International

New standard provides more hedging opportunities

A new general hedge accounting standard issued by the IASB this week – part of IFRS *9 Financial Instruments* (2013) – will align hedge accounting more closely with risk management.

The new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness; however, more hedging strategies that are used for risk management will qualify for hedge accounting.

Assessing the effectiveness of a hedging relationship will require more judgement, and the application guidance in some areas remains complex. Significant effort may be needed to analyse the requirements and their impact, while changes to current practice may lead to additional systems requirements.

The mandatory effective date is still to be determined, but entities can early adopt the new general hedging model if they also apply all existing IFRS 9 requirements at the same time.

For details, refer to: In the Headlines - New standard provides more hedging opportunities

> "Airlines, shipping and other industries that have to manage significant commodity price exposures will have the most to gain from the new ability to apply hedge accounting for risk components of non-financial items."
>
> Ong Pang Thye, Head of Audit, KPMG in Singapore

The need for consistency and clarity

A statement issued this week by the European Securities and Markets Authority (ESMA) highlights the areas of focus for European national regulators when reviewing IFRS financial statements for the year ending 31 December 2013.

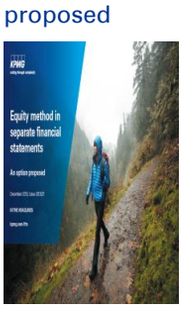
ESMA's statement builds on its 2012 messages, specifically pointing out areas for improvement and emphasising a need for companies to focus on what is relevant to their financial statements. The statement stresses the need for transparency and the appropriate and consistent application of accounting principles, while providing detailed, relevant disclosures on the items that matter to the company and its investors.

Although the topics included in the statement are those deemed to be most relevant at a European level, regulatory bodies outside of Europe are also likely to take notice, and to pay particular attention to the same areas of focus.

For details, refer to: In the Headlines – Focus areas for regulators

> "The regulators continue to call for transparency, specifically pointing out the areas for improvement."
>
> Mark Vaessen, KPMG global IFRS network leader

An option proposed



In some countries, local laws or regulations require separate financial statements that apply equity accounting for investments in associates, joint ventures and subsidiaries. However, IFRS does not currently permit this. In some cases, the use of the equity method is the only difference between separate financial statements prepared under IFRS and those under local regulations.

Constituents have therefore asked the IASB to restore the option to report investments in associates, joint ventures and subsidiaries using the equity method in their separate financial statements. In response to these requests, and in a departure from past practice – the IASB does not usually flex IFRS to accommodate accounting practices at a national level – the Board issued its exposure draft (ED) *Equity Method in Separate Financial Statements (Proposed amendments to IAS 27)* on 2 December 2013.

For details, refer to: In the Headlines – Equity method in separate financial statements

> "Companies in some countries will welcome the proposal to allow the equity method in separate financial statements."
>
> Peter Carlson, KPMG's global IFRS business combinations and consolidation deputy leader

Recommendations for financial institutions and beyond

For details, refer to: In the Headlines – Improving the quality of disclosures

Following the financial crises, transparency and comparability of the financial statements of financial institutions have gained increased importance for users. To help address this demand, the ESMA has published a review of the comparability and quality of disclosures in the 2012 financial statements of 39 major European financial institutions.

ESMA expects financial institutions and their auditors to consider the findings of this review when preparing and auditing 2013 IFRS financial statements.

As with ESMA's recently announced enforcement priorities for 2013, we expect that regulatory bodies within and outside of Europe will take notice of this report and pay particular attention to these areas of focus.

> "Effective disclosure requires a focus on the issues that really matter, within a structure that users can navigate and compare."
>
> Chris Spall, KPMG's global IFRS financial instruments leader

A practical approach to pension accounting

For details, refer to: In the Headlines – A practical approach to pension accounting

Changes to pension accounting finalised by the IASB on 21 November 2013 will provide some welcome relief from the potentially burdensome requirements that many companies would be applying for the first time in 2013.

However, not all companies will see the benefits of this practical expedient. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.

Companies accounting for employee or third party contributions that cannot (or decide not to) apply the practical expedient will benefit instead from a clarification.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014. Earlier application is permitted.

In Singapore, the ASC has issued these amendments, with the same effective date.

> "The introduction of this practical expedient will provide welcome relief for many companies from the complex accounting otherwise required."
>
> Lynn Pearcy, KPMG's global IFRS employee benefits leader

The future of IFRS financial instruments accounting

For details, refer to: IFRS Newsletter: Financial Instruments

IFRS 9 *Financial Instruments (2013*), including the new general hedging model, was issued in November and is available for early adoption.

On the classification and measurement, IASB reached tentative decisions on the business model assessment, including the level at which the business model should be assessed, how sales impact the assessment, and the addition of a third measurement category- i.e. fair value through other comprehensive income (FVOCI).

On the impairment side, IASB reached tentative decisions on the measurement and presentation of expected credit losses on revolving credit facilities, measurement of expected credit losses for financial assets at FVOCI, the interest revenue calculation, the treatment of purchase or originated credit-impaired (POCI) assets, and trade and lease receivables.

> "Preparers received a little more clarity on the mandatory effective date of IFRS 9. It is officially no longer 1 January 2015, and will not be before 1 January 2017."
>
> Chris Spall, KPMG's global IFRS financial instruments leader

A level of confidence

For details, refer to: IFRS Newsletter: Revenue – What to expect in the new standard

A number of problematic issues were resolved in October's joint meeting between the IASB and the FASB on the revenue recognition topic. The Boards reached significant decisions on the revenue constraint, licences of intellectual property and collectibility.

These decisions mark the end of substantive redeliberations of the proposals published in the 2011 exposure draft *Revenue from Contracts with Customers*. The Boards have now directed staff to finish drafting the new standard and progress the remaining due process steps.

We expect the final standard to be issued in Q1 2014.

> "The Boards were in decision-making mode this month – the final shape of the new revenue standard is now clear."
>
> Phil Dowad, KPMG's global IFRS revenue recognition leader

Keeping the *IFRS for SMEs* up to date

For details, refer to: IFRS Newsletter: Keeping the IFRS for SMEs up to date

New proposals issued by the IASB aim to update the IFRS for Small and Medium-sized Entities for IFRS developments without adding complexity.

The proposed changes to the section on income taxes, which would bring it back in line with IAS 12 *Income Taxes*, may impact preparers. Most of the other proposed amendments seek only to clarify existing requirements, provide supporting guidance and update the standard in light of changes to full IFRS, unless the new requirements are too complex.

The IASB has also simplified certain disclosure requirements and provided some new exemptions.

Comments to the IASB are due by 3 March 2014., and the comment period to the Singapore ASC closes on 3 January 2014.

> The IASB is consulting on proposed amendments to the *IFRS for SMEs* as part of its first comprehensive review of the standard.

Common abbreviations

ASC	Accounting Standards Council in Singapore
ACRA	Accounting and Corporate Regulatory Authority
CPF	Central Provident Fund
DP	Discussion Paper
ED	Exposure Draft
FASB	U.S. Financial Accounting Standards Board
FSP	FASB Staff Position
FRS	Singapore Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ISCA	Institute of Singapore Chartered Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INT FRS	Interpretation of Financial Reporting Standard
IRAS	Inland Revenue Authority of Singapore
LM	Listing Manual of the Singapore Exchange
MAS	Monetary Authority of Singapore
MOF	Ministry of Finance
PCAOB	Public Company Accounting Oversight Board
REIT	Real Estate Investment Trust
SGX	Singapore Exchange
XBRL	eXtensible Business Reporting Language

Note: All values in this publication are in Singapore Dollars, unless otherwise stated.

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