

ZiCA pre-AGM

Recent developments in financial reporting presentation

October 2021



Agenda

1) Continuing impact of Covid 19

2) Presentation matters

- Disclosure initiative
- Management commentary
- Accounting Policies and Materiality
- Going concern
- Significant judgements, estimation uncertainty & policies

3) Appendix

- Effective dates of new pronouncements



1

Covid 19 Continuing impact

Continuing impact of Covid-19

Prospective financial information

Continued global economic uncertainty increases the judgement involved in assessing Prospective Financial Information (PFI) which is a key input into many accounting estimates.

Fraud and management override

Risks of fraud on the entity's system of internal control from such matters as employee illnesses, office closures, remote working and headcount reductions are present in the current environment.



Disclosures

Continued focus with audit effort on expanded risk disclosures as a result of key assumptions and significant judgements.

Key audit matters

Disclosures related to key judgment areas that are included as part of KAMS

Entity level controls

Risk of a compromised internal control structure given the remote working arrangements. Consider if the control environment continues to support the prevention, or detection and correction, of material misstatements relevant to financial reporting.

Continuing impact of Covid-19

IFRS 9

- Increased credit risk disclosures
- Specific industry/ sector exposure
- Focus on staging, including as a result of change in definition of default

Materiality and Going concern

Company projected profits going forward can allow to revert to a customary determination of materiality for the 2021 audit cycle. Need for companies to continue to focus on Appropriateness of going concern and relevant disclosures

Financial instruments

- Increased liquidity risk in the current economic environment.
- Focus on IFRS 13 application in valuing financial instruments.



Cyber risk

Data security risks due to continued remote working or not working in secure environments.

People risk

Impact of vacancies and remote working, including fatigue and mental wellness of staff may negatively impact on operations, fraud events and control breakdowns.

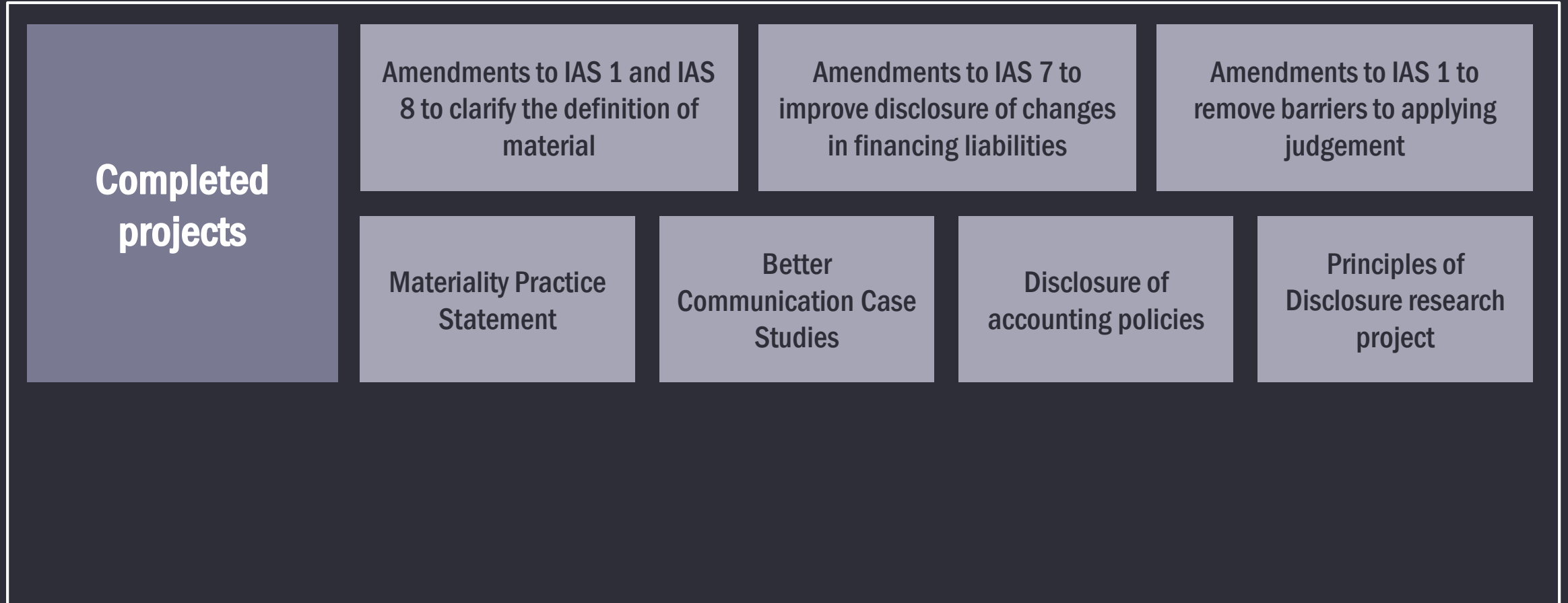
Asset impairment

Impairment indicators exist and suggest that companies would need to test for impairment. Increased judgement is required around the use of forward looking information. We would expect this risk to be reduced compared to the prior year.

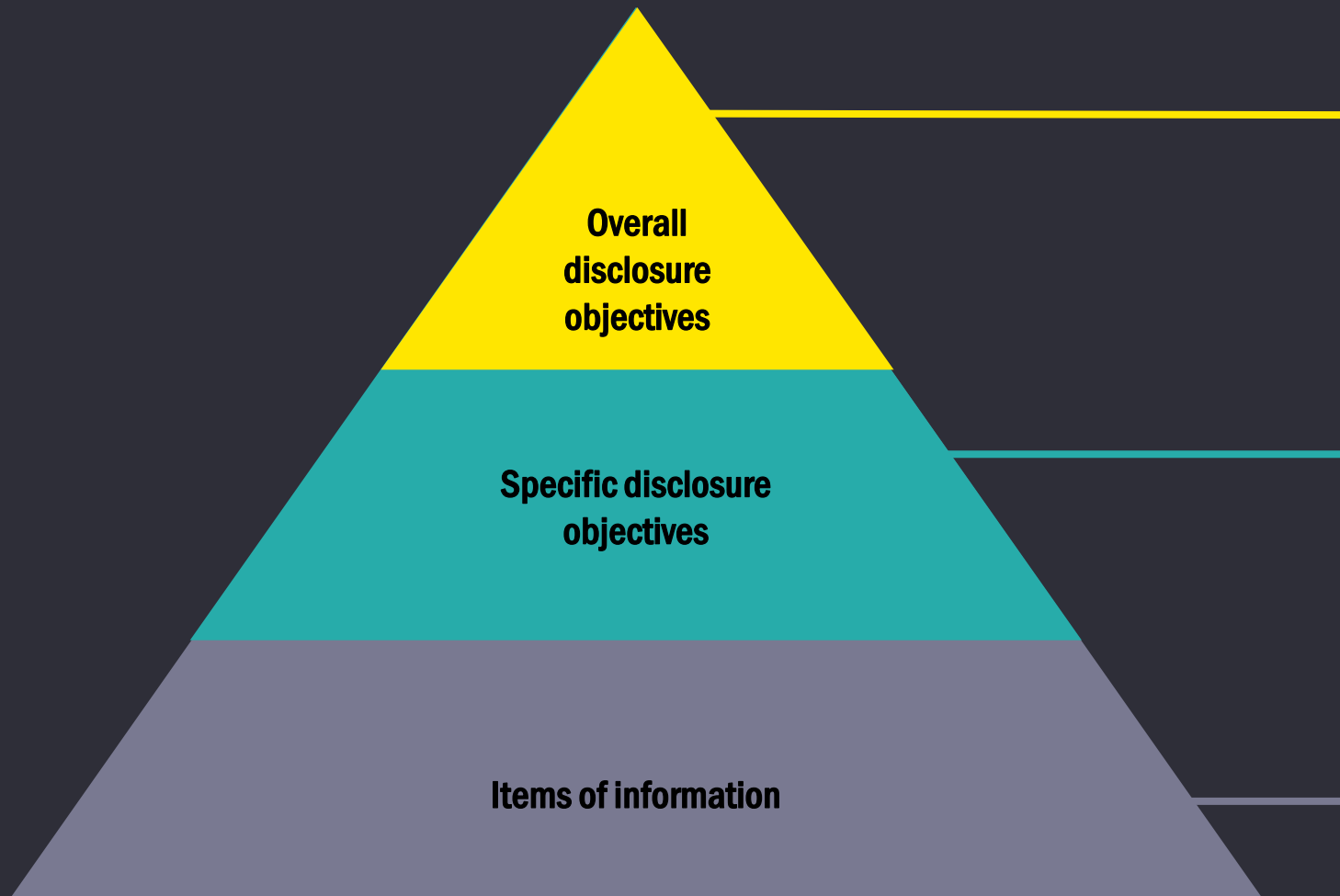
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Presentation matters

Disclosure initiative



Disclosure initiative



Overall disclosure objectives:

- Focus on needs of users
- More specific to scope of the standards than Conceptual Framework and IAS 1.

Specific disclosure objectives:

- Describes the more detailed information needs of users.
- Balance between entity-specific information and information useful for comparability
- **JUDGEMENT!**

Items of information:

- Mandatory and non-mandatory



Exposure draft – comment period ends 21 October 2021

Management commentary – Exposure Draft

Comprehensive objectives based framework

The objective of management commentary



Disclosure objectives for areas of content

Business model

Risks

Strategy

External environment

Resources and relationships

Financial performance and financial position

Selecting and presenting information

Materiality

Examples of material information

Metrics

Attributes of useful information

Long term prospects, intangibles and environmental, social and governance matters



Exposure draft – comments until 23 November 2021

Significant accounting policies – amendment to IAS1

‘significant’ accounting policies

replaced with

‘material’ accounting policies



*Accounting policy information is **material** if, when considered together with other information included in an entity’s financial statements, it can **reasonably be expected to influence decisions** that the primary users of general purpose financial statements make on the basis of those financial statements*



Effective from 1 January 2023 (early adoption permitted)



Four step materiality process

1

Identify

2

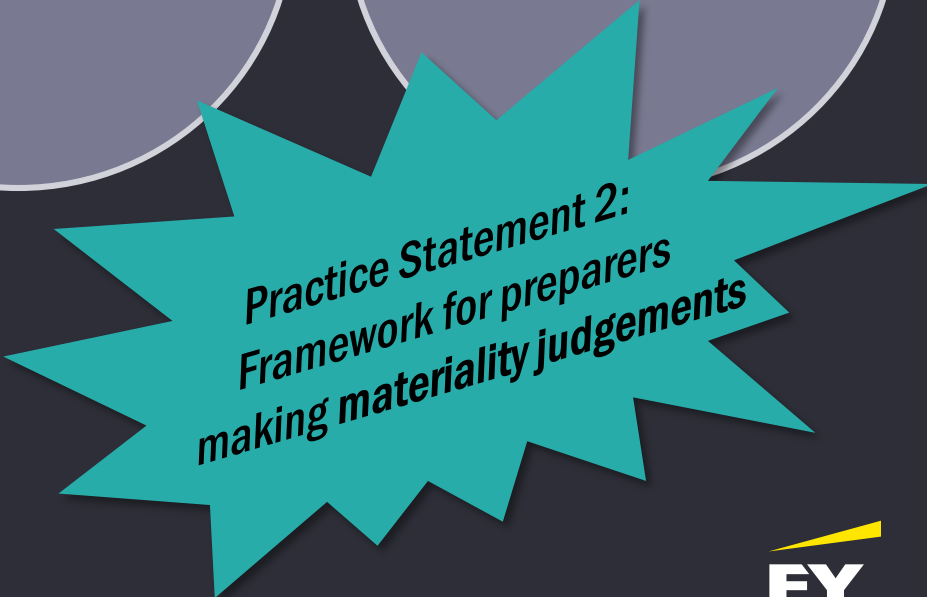
Assess

3

Organise

4

Review



**Practice Statement 2:
Framework for preparers
making materiality judgements**

Significant accounting policies – example disclosure

3D. Distributions made and proposed

Accounting policy

The Company recognises a liability to pay a dividend when the distribution is authorised. And the distribution is no longer at the discretion of the Company. As per the corporate laws of Euroland, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

IFRIC 17.10

	2020	2019
	€000	€000
Cash dividends on ordinary shares declared and paid:		
Final dividend for 2019: 5.66 cents per share (2018: 3.93 cents per share)	1,089	749
Interim dividend for 2020: 4.66 cents per share (2019: 4.47 cents per share)	890	851
	1,979	1,600
Special cash dividends on ordinary shares declared but not paid:		
Special dividends for 2020: 2.14 cents per share (2019: Nil)	410	-
Proposed dividends on ordinary shares:		
Final cash dividend for 2020: 5.01 cents per share (2019: 5.66 cents per share)	1,087	1,082

IAS 1.107

IAS 1.137(a)

Special dividends were approved by an extraordinary shareholders meeting on 15 December 2020 and are included as a separate line item in the statement of financial position. Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

4E. Events after the reporting period

Accounting policy

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's consolidated financial statements. The Group will adjust the amounts recognised in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

IAS 10.21
IAS 10.10

Non-adjusting event

On 14 January 2021, a building with a net book value of €1,695,000 was severely damaged by flooding and inventories with a net book value of €857,000 were destroyed. It is expected that insurance proceeds will fall short of the costs of rebuilding and loss of inventories by €750,000.

Separate accounting policy in each note

4C. Goodwill and intangible assets with indefinite useful lives continued

Goodwill is tested for impairment annually as at 31 October and when circumstances indicate that the carrying value may be impaired.

IAS 36.10(b)
IAS 36.104
IAS 36.124

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are also tested for impairment annually as at 31 October at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

IAS 36.10(a)

Commentary

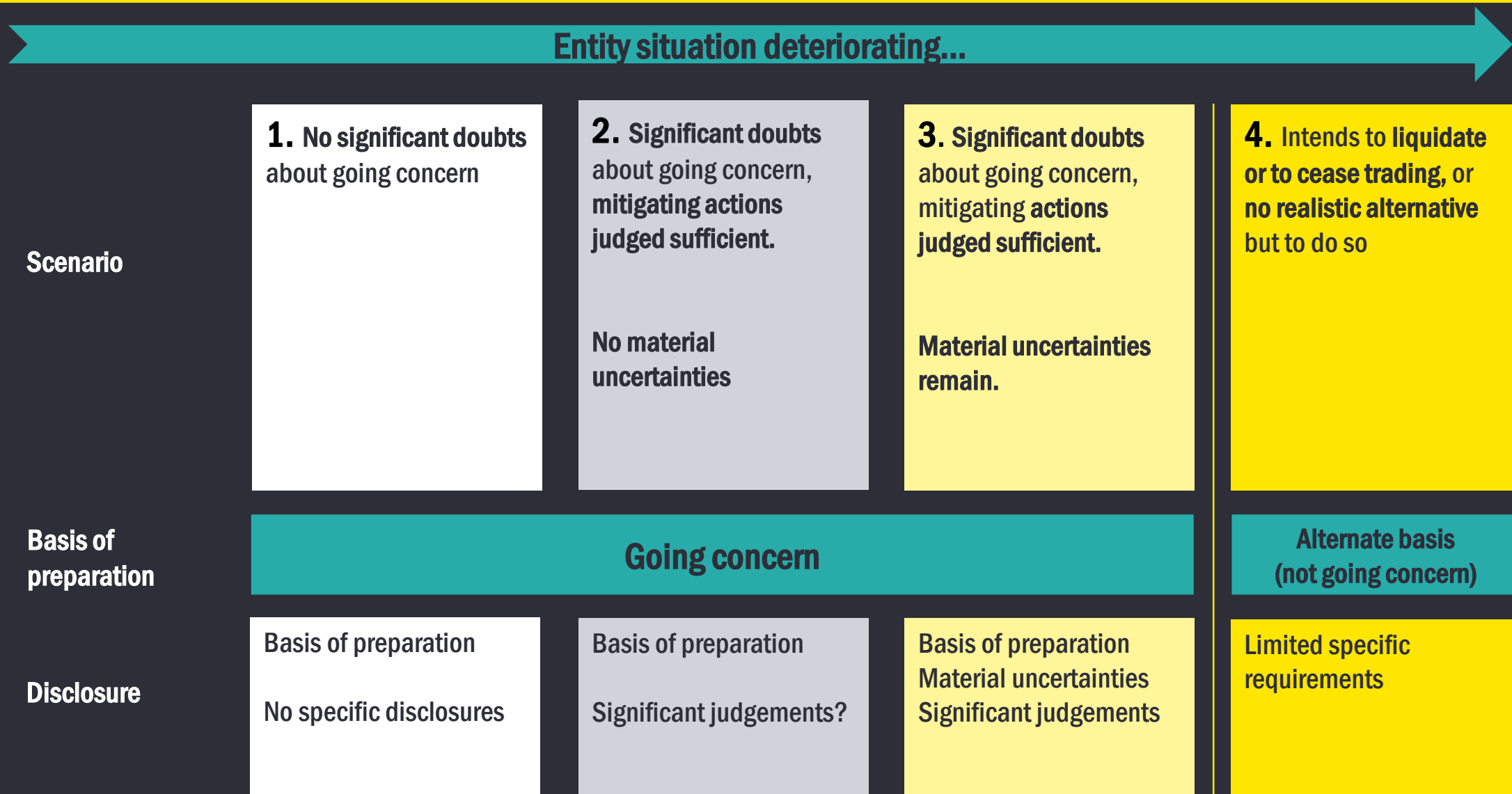
IAS 36.96 permits the annual impairment test for a CGU to which goodwill has been allocated to be performed at any time during the year, provided it is at the same time each year. Different CGUs and intangible assets may be tested at different times.

For impairment testing goodwill acquired through business combinations and licences with indefinite useful lives are allocated to the electronics and fire prevention equipment CGUs, which are also operating and reportable segments.

4C.1 Carrying amount of goodwill and licences allocated to each of the CGUs:

Electronics unit		Fire prevention equipment unit		Total	
2020	2019	2020	2019	2020	2019
€000	€000	€000	€000	€000	€000

Going concern – IFRS Foundation educational material



Going concern

IAS 1.122

Significant judgments
made in concluding
that no material
uncertainties exist

Major sources of
**estimation
uncertainty**

IAS 1.125
-133

IAS 1.25

Disclosure of **material
uncertainties** and
financial statements
**not prepared under
going concern**

Disclosure is key 

Significant judgements and estimation uncertainty: polling question



Offshore Ltd has a significant lawsuit against it. Offshore Ltd has recognised a provision after their lawyers advised that it was probable that they would lose the lawsuit.

Is this:

- A. A significant judgement
- B. A significant estimate
- C. Both A) and B)
- D. None of the above

Significant judgements and estimation uncertainty

Judgements

made in the process of applying accounting policies

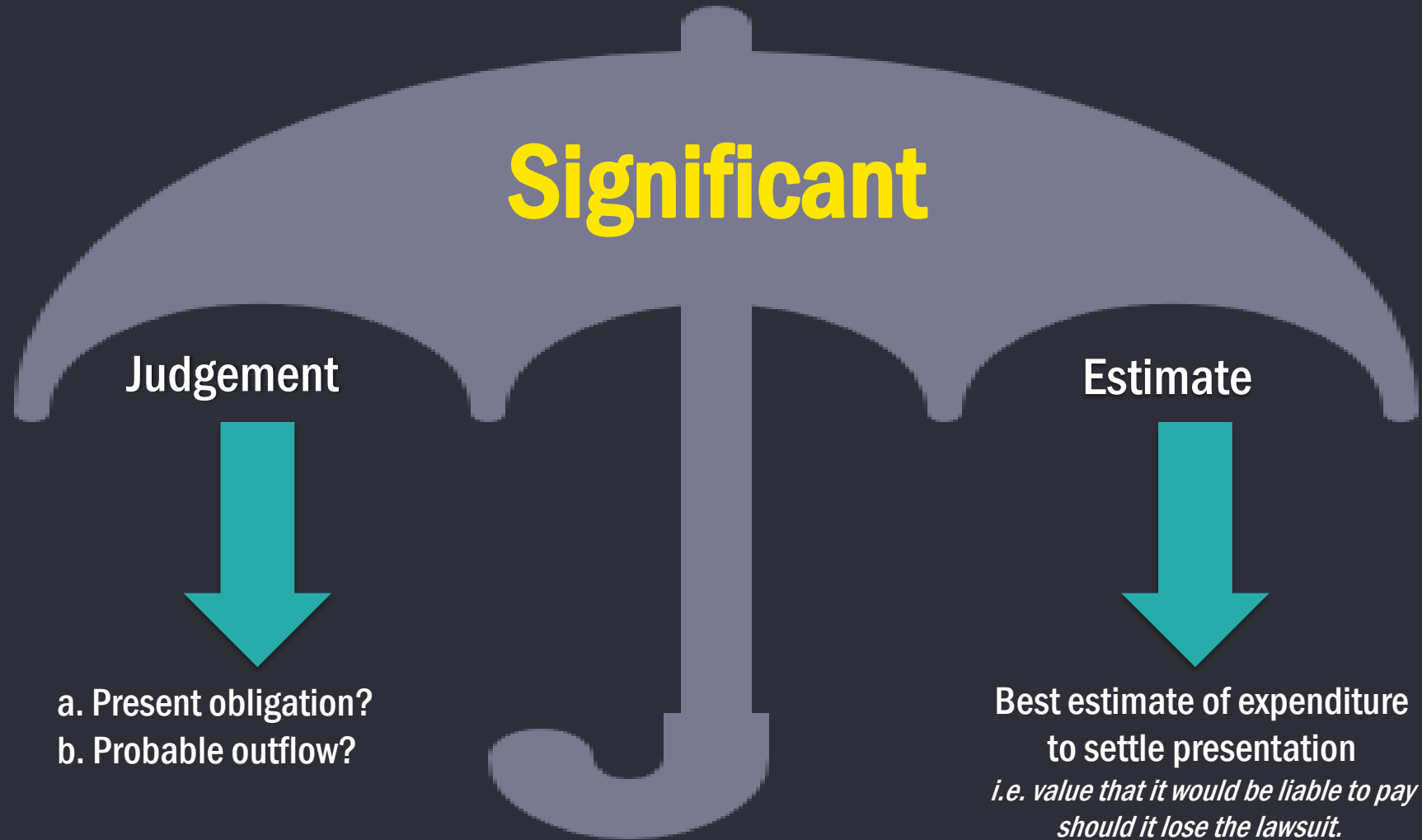
e.g. classification of financial instruments, fair value hierarchy

Financial statements are influenced by

Assumptions & sources of estimation uncertainty

e.g. ECL estimation, fair value of financial assets and liabilities

Significant judgements and estimation uncertainty



Amendments to IAS 8

Definition of estimates

Accounting estimates - now defined
monetary amounts in financial statements that are subject to measurement uncertainty

Measurement techniques and inputs are used to develop accounting estimates

Additional guidance is provided to clarify a change in input or measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors



Effective 1 January 2023 with early adoption permitted

Significant judgements and estimation uncertainty

Disclosure of judgements and sources of estimation uncertainty

Judgements	Assumptions and sources of estimation uncertainty
Identify alternatives that management considered	Identify what the different assumptions are
Explain why the choice was difficult/judgmental	Prioritise quantifiable disclosures above qualitative information
Provide entity specific explanations as to why the specific choice was made	Explain the sensitivity of the outcome to changes in the methods, assumptions and estimates used in the calculation
	Identify the view that management thought was most likely when measuring the item

3

Appendix

Amendment to IFRS 16

COVID-19 related rent concessions

- Update to condition to apply relief to a change in lease payments originally due on or before **30 June 2021 to 30 June 2022**
- **Modified retrospective application** to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted



Entities are **required to apply the practical expedient consistently** to contracts with **similar characteristics and in similar circumstances.**

Overview of new pronouncements

New pronouncements effective for periods beginning on or after 1 January 2021 and 1 January 2022

	2021	2022	2023
Interest Rate Benchmark Reform – Phase 2 <i>(Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)</i>	✓		
COVID-19 related rent concessions <i>(Amendments to IFRS 16)</i> *	✓		
Reference to the Conceptual Framework <i>(Amendments to IFRS 3)</i>		✓	
Property, Plant and Equipment: Proceeds before Intended Use <i>(Amendments to IAS 16)</i>		✓	
Onerous Contracts – Costs of Fulfilling a Contract <i>(Amendments to IAS 37)</i>		✓	
Annual Improvements Process (AIP): 2018-2020 cycle**		✓	

* Effective for annual periods beginning on or after 1 April 2021, with earlier application permitted.

** Amendments to: IFRS 1 (Subsidiary as a first-time adopter), IFRS 9 (Fees in the '10 per cent' test for derecognition of financial liabilities), IAS 41 (Taxation in fair value measurements), and IFRS 16 Illustrative Example 13

Overview of new pronouncements (continued)

New pronouncements effective for periods beginning on or after 1 January 2023

	2021	2022	2023
IFRS 17 <i>Insurance Contracts</i>			✓
Classification of Liabilities as current or non-current (<i>Amendments to IAS 1</i>)			✓
Disclosure of Accounting Policies (<i>Amendments to IAS 1 and IFRS Practice Statement 2</i>)			✓
Definition of Accounting Estimates (<i>Amendments to IAS 8</i>)			✓

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