Appendix C

2018-19 Draft Financial Statements – IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts

1. Introduction/Background

1.1 For financial year 2018-19 the Council is required to comply with two new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts.

2. IFRS 9 Financial Instruments

2.1 IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early application permitted.

2.2 IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

2.3 IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

2.4 In summary IFRS states that financial assets must be classified as either:

(1) Assets which are held for the purposes of receiving income on specified dates, in the form of repayment of the principal amount and interest earned on the sum invested;

(2) Assets which are held for the purpose of either receiving income from payment of principal and interest or sale of the asset to another organisation with a view to making a profit on the sale (e.g. share capital or bonds);

(3) Any other type of financial assets.

3. IFRS 15 Revenue from Contracts

3.1 IFRS 15 is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

3.2 IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer.

3.3 To recognise revenue under IFRS 15, an entity is required to apply the following five steps:

(1) Identify the contract(s) with a customer.

(2) Identify the performance obligations in the contract, i.e. transfer of goods or services that are distinct.

(3) Determine the transaction price, i.e. the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to then customer. If a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.

(4) Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling price of each distinct good or service identified in the contract.

(5) Recognise revenue when a performance obligation is satisfied by transferring a distinct good or service to the customer. For a performance obligation satisfied over time the entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

4. Options for Consideration

4.1 None

5. Proposals

5.1 To note the report

6. Conclusion

6.1 In accordance with the Council's Investment and Borrowing Strategy, all the financial assets currently held by the Council are in the form of cash invested with banks, building societies and money market funds. At end of March 2019, these consisted of £8.3 million held in instant access accounts which pay variable rates of interest and £26 million in fixed term deposits with building societies at fixed rates of interest.

6.2 All of the Council's financial assets therefore can be classified as type (1) as shown in paragraph 2.4 (above). The Council does not currently hold any type (2) or type (3) financial assets.

6.3 IFRS 9 states that type (i) financial assets should be shown in the Council's accounts at their "Amortised Cost". This means the original sum invested less any depreciation in the value of the investment. As all the Council's investments are either in instant access accounts or for fixed periods of less than 12 months, it is not necessary to depreciate the value of any of our investments. All the Council's investments can therefore be shown in the 2018/19 statement of accounts 2018/19

at the value of the sum invested i.e. £34.3million. Under the requirements of IFRS 9 an additional transition note has been included in the financial statements.

6.4 From a review of the implications of IFRS 15 for the Council it has been determined and agreed with the External Auditors that any impact would not be material, therefore no adjustments have been made within the financial statements.

7. Consultation and Engagement

7.1 Andy Walker – Head of Finance & Property

Background Papers: None

Subject to Call-In:
Yes: ☐ No: X

Report is to note only X

Wards affected:
None

Strategic Aims and Priorities Supported:
The proposals will help achieve the following Council Strategy aim:

X MEC – Become an even more effective Council

The proposals contained in this report will help to achieve the following Council Strategy priority:

X MEC1 – Become an even more effective Council

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