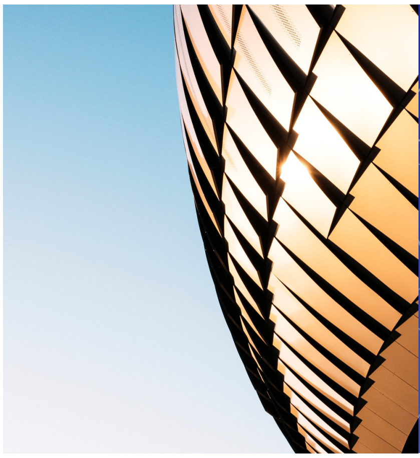
ANANT BHATT LLP
CERTIFIED PUBLIC ACCOUNTANTS
THE POWER OF EXPERIENCE ®
AUDIT | TAX | ADVISORY

City House, First Floor
Nyerere Avenue
Mombasa, Kenya
P.O. Box 80766-80100
Phone: 041-2223682/6542
Email: info@anantbhatt.com
Visit: www.anantbhattllp.com

THE ANANTROY BHATT KNOWLEDGE CENTRE



IFRS 14:

REGULATORY DEFERRAL ACCOUNTS

1 Introduction to IFRS 14: Regulatory Deferral Accounts

The objective of IFRS 14 is to specify the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation. IFRS 14 is designed as a limited scope Standard to provide an interim, short-term solution for rate-regulated entities that have not yet adopted International Financial Reporting Standards (IFRS). Its purpose is to allow rate-regulated entities adopting IFRS for the first-time to avoid changes in accounting policies in respect of regulatory deferral accounts until such time as the International Accounting Standards Board (IASB) can complete its comprehensive project on rate regulated activities

IFRS 14 is permitted, but not required, to be applied where an entity conducts rate-regulated activities and has recognised amounts in its previous GAAP financial statements that meet the definition of 'regulatory deferral account balances' (sometimes referred to 'regulatory assets' and 'regulatory liabilities').

Entities which are eligible to apply IFRS 14 are not required to do so, and so can chose to apply only the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards when first applying IFRSs. The election to adopt IFRS 14 is only available on the initial adoption of IFRSs, meaning an entity cannot apply IFRS 14 for the first time in financial statements subsequent to those prepared on the initial adoption of IFRSs. However, an entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements.

When applied, the requirements of IFRS 14 must be applied to all regulatory deferral account balances arising from an entity's rate-regulated activities.

2 Definitions

- **Rate regulation = A framework for establishing the prices that can be charged to customers for goods and services and that framework is subject to oversight and/or approval by a rate-regulator.**
- **Rate regulator = An authorised body that is empowered by statute or regulation to establish the rate or range of rates that bind an entity. The rate regulator may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of customers and to ensure the overall financial viability of the entity.**
- **Rate regulatory account balances = The balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers.**

3 Accounting Policies For Regulatory Deferral Account Balances

Exemption

IFRS 14 provides an exemption from paragraph 11 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors when an entity determines its accounting policies for regulatory

deferral account balances. Paragraph 11 of IAS 8 requires an entity to consider the requirements of IFRSs dealing with similar matters and the requirements of the Conceptual Framework when setting its accounting policies.

Effect of Exemption

The effect of the exemption is that eligible entities can continue to apply theaccounting policies used for regulatory deferral account balances under the basisof accounting used immediately before adopting IFRS ('previous GAAP') whenapplying IFRSs, subject to the presentation requirements of IFRS 14.

Permission To Change Accounting Policy

Entities are permitted to change their accounting policies for regulatory deferral account balances in accordance with IAS 8, but only if the change makes the financial statements more relevant and no less reliable, or more reliable and not less relevant, to the economic decision-making needs of users of the entity's financial statements. However, an entity is not permitted to change accounting policies to start to recognise regulatory deferral account balances

4 Interaction With Other Standards

The requirements of other IFRSs are required to be applied to regulatory deferral account balances, subject to specific exceptions, exemptions and additional requirements contained in IFRS 14.

- IAS 10 = The requirements of IAS 10 are applied when determining which events after the end of the reporting period should be taken into account in the recognition and measurement of regulatory deferral account balances.
- IAS 12 = Deferred tax assets and liabilities arising from regulatory deferral account balances are presented separately from total deferred tax amounts and movements in those deferred tax balances are presented separately from tax expense (income)
- IAS 33 = Entities applying IFRS 14 are required to present an additional basic and diluted earnings per share that excludes the impacts of the net movement in regulatory deferral account balances.
- IAS 36 = Regulatory deferral account balances are included in the carrying amount of any relevant cash-generating unit (CGU) and are treated in the same way as other assets and liabilities where an impairment loss arises.
- IFRS 3 = The entity's accounting policies for regulatory deferral account balances are used in applying the acquisition method, which can result in the recognition of regulatory deferral account balances in respect of an acquiree, regardless of whether the acquiree itself recognised such balances.
- IFRS 5 = The measurement requirements of IFRS 5 do not apply to regulatory deferral account balances, and modifications are made to the presentation of information about discontinued operations and disposal groups in relation to such balances.

- IFRS 10 & IAS 28 = the entity's accounting policies in respect of regulatory deferral account balances are required to be applied in an entity's consolidated financial statements or in the determination of equity accounted information of associates or joint ventures, notwithstanding that the entity's investees may not have recognised regulatory deferral account balances in their financial statements.
- IFRS 12 = Separate disclosure of regulatory deferral account balances and net movements in those balances recognised in profit or loss or other comprehensive income are required for various IFRS 12 disclosures.

5 Presentation in Financial Statements

The impact of regulatory deferral account balances are separately presented in an entity's financial statements. This requirements applies regardless of the entity's previous presentation policies in respect of regulatory deferral balance accounts under its previous GAAP. Accordingly:

- Separate line items Separate line items are presented in the statement of financial position for the total of all regulatory deferral account debit balances, and all regulatory deferral account credit balances.

- Classification Regulatory deferral account balances are not classified between current and noncurrent, but are separately disclosed using subtotals

- Net movement The net movement in regulatory deferral account balances are separately presented in the statement of profit or loss and other comprehensive income using subtotals.

6 Disclosures

IFRS 14 sets out disclosure objectives to allow users to assess:

- Nature oriented disclosures The nature of, and risks associated with, the rate regulation that establishes the price(s) the entity can charge customers for the goods or services it provides - including information about the entity's rate-regulated activities and the ratesetting process, the identity of the rate regulator(s), and the impacts of risks and uncertainties on the recovery or reversal of regulatory deferral balance accounts
- Effects oriented disclosures The effects of rate regulation on the entity's financial statements - including the basis on which regulatory deferral account balances are recognised, how they are assessed for recovery, a reconciliation of the carrying amount at the beginning and end of the

- **...reporting period, discount rates applicable, income tax impacts and details of balances that are no longer considered recoverable or reversible.**

Trainee Development - Gold

Practising Certificate Development

Professional Development

ICAEW AUTHORISED TRAINING EMPLOYER

Established in 1949 **www.anantbhattllp.com**

CPA Kamal Anantroy Bhatt
Managing Partner
E : kamal@anantbhatt.com

CPA Daniel Kinyae Mumo
Associate Partner
E : daniel@anantbhatt.com

Anant Bhatt LLP
City House, First Floor
Nyerere Avenue
Mombasa, Kenya

P.O. Box 80766-80100
E : info@anantbhatt.com
P : 0726241555, 041-2223682, 041-2226542