

International Financial Reporting Standard IFRS 14

Regulatory Deferral Accounts

January 2014

ILLUSTRATIVE EXAMPLES

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IFRS 14 *Regulatory Deferral Accounts* Illustrative examples

These examples accompany, but are not part of, the Standard.

Regulatory deferral account balances

Example 1—Illustrative presentation of financial statements

- IE1 Paragraphs 20–25 of this Standard require an entity to present regulatory deferral account debit balances and credit balances and any related deferred tax asset (liability) and the net movement in those balances as separate line items in the statement of financial position and the statement(s) of profit or loss and other comprehensive income respectively. Sub-totals are drawn before the regulatory line items are presented. In addition, paragraph 26 requires an entity to present additional basic and diluted earnings per share, which are calculated by excluding the net movement in regulatory deferral account balances, when the entity presents earnings per share in accordance with IAS 33 *Earnings per Share*. Example 1 illustrates how these requirements might be met, but is not intended to illustrate all aspects of this Standard or IFRS more generally.

XYZ Group—Statement of financial position as at 31 December 20X7

(in currency units)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Investments in equity instruments	129,790	146,460
	<u>888,910</u>	<u>935,920</u>
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	212,160	220,570
	<u>464,640</u>	<u>476,410</u>
Total assets	1,353,550	1,412,330
Regulatory deferral account debit balances and related deferred tax asset	112,950	111,870
Total assets and regulatory deferral account debit balances	<u>1,466,500</u>	<u>1,524,200</u>

Note: The aggregated total that is presented for regulatory deferral account debit balances and the related deferred tax asset includes the sum of the regulatory deferral account debit balances of CU100,240 (20X6 – CU102,330) plus the deferred tax asset that is related to the recognition of regulatory deferral account balances of CU12,710 (20X6 – CU9,540). This aggregated presentation is permitted by paragraphs 24 and B11 of this Standard. An alternative disaggregated presentation is illustrated in Example 2.

XYZ Group—Statement of financial position as at 31 December 20X7

(in currency units)

	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	164,500
Other components of equity	10,200	21,200
	<u>903,700</u>	<u>785,700</u>
Non-controlling interests	70,050	45,800
	<u>70,050</u>	<u>45,800</u>
Total equity	973,750	831,500
	<u>973,750</u>	<u>831,500</u>
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
	<u>177,650</u>	<u>238,280</u>
Current liabilities		
Trade and other payables	87,140	111,150
Short-term borrowings	80,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
	<u>217,140</u>	<u>377,950</u>
Total liabilities	394,790	616,230
	<u>394,790</u>	<u>616,230</u>
Total equity and liabilities	1,368,540	1,447,730
Regulatory deferral account credit balances	97,960	76,470
	<u>97,960</u>	<u>76,470</u>
Total equity, liabilities and regulatory deferral account credit balances	1,466,500	1,524,200
	<u>1,466,500</u>	<u>1,524,200</u>

Note: regulatory deferral account balances are not described as assets or liabilities for the purposes of this Standard. The sub-totals described as “Total assets” and “Total liabilities” are comparable to those that would be presented if the regulatory deferral account balances were not recognised. The difference between these two sub-totals represents the net balance of all regulatory deferral account balances recognised and any related deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances, which would otherwise be recognised within retained earnings or other components of equity.

XYZ Group—Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
(in currency units)

	20X7	20X6
Revenue	390,000	358,784
Cost of sales	(237,062)	(230,000)
Gross profit	152,938	128,784
Other income	44,247	16,220
Distribution costs	(9,000)	(13,700)
Administrative expenses	(20,000)	(31,500)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates	35,100	15,100
Profit before tax	193,185	106,204
Income tax expense	(43,587)	(44,320)
Profit for the year before net movements in regulatory deferral account balances	149,598	61,884
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	(27,550)	3,193
Profit for the year and net movements in regulatory deferral account balances	122,048	65,077
Other comprehensive income: Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit pension plans	(7,938)	(3,784)
Net movement in regulatory deferral account balances related to other comprehensive income	7,140	4,207
Other comprehensive income for the year, net of income tax	(798)	423
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	121,250	65,500
Profit and net movements in regulatory deferral account balances attributable to:		
Owners of the parent	97,798	51,977
Non-controlling interests	24,250	13,100
	122,048	65,077
Total comprehensive income attributable to		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500

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Earnings per share (in currency units):

Basic and diluted	0.61	0.35
Basic and diluted including net movement in regulatory deferral account balances	0.46	0.30

Notes:

- (1) To simplify the example, it is assumed that all regulatory deferral account balances relate to activities that are carried out in wholly-owned subsidiaries and thus no amounts are attributable to non-controlling interests.
- (2) The aggregated total that is presented for the net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement includes the net movement in regulatory deferral account balances of CU30,720 (20X6 – CU9,127) and the movement in the related deferred tax asset that is related to the recognition of regulatory deferral account balances, which is CU3,170 (20X6 – CU12,320). This aggregated presentation is permitted by paragraphs 24 and B12 of this Standard. An alternative disaggregated presentation is illustrated in Example 2.

- IE2 For each type of rate-regulated activity, paragraph 33 requires an entity to present, for each class of regulatory deferral account balance, a reconciliation of the carrying amount at the beginning and the end of the period. This example illustrates how that requirement may be met for an entity with two types of rate-regulated activity (electricity distribution and gas distribution), but is not intended to illustrate all aspects of this Standard or IFRS more generally.

Regulatory deferral account balances

Regulatory deferral account debit balances	20X6	Balances arising in the period	Recovery/ reversal	20X7	Remaining recovery/ reversal period (years)
<i>Electricity distribution</i>					
Construction costs	18,720	5,440	(80)	24,080	4–10
Storm damage	64,410	—	(12,060)	52,350	4
Other regulatory accounts	6,270	2,320	(950)	7,640	4–10
<i>Gas distribution</i>					
Pension costs	5,130	10,120	(2,980)	12,270	N/A
Gas cost variances	7,800	—	(3,900)	3,900	1
	102,330	17,880	(19,970)	100,240	

**Regulatory deferral
account credit balances**

<i>Electricity distribution</i>					
Land disposal	—	19,000	—	19,000	10
Income tax	6,360	3,207	(1,093)	8,474	1–10
<i>Gas distribution</i>					
Gas cost variances	600	4,000	(200)	4,400	2–3
Income tax	3,180	1,603	(547)	4,236	1–10
Decommissioning costs	66,330	(2,030)	(2,450)	61,850	3–20
	76,470	25,780	(4,290)	97,960	

Notes:

- (1) Construction costs consist of costs that are not permitted to be included in the cost of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.
- (2) Other regulatory accounts include regulatory deferral account debit balances that are individually immaterial.

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- (3) The net movement in the pension costs regulatory deferral account balance of CU7,140 (CU12,270 – CU5,130) relates to the remeasurement of the defined benefit pension plan, which is presented in other comprehensive income in accordance with IAS 19 *Employee Benefits*. In accordance with paragraph 22 of this Standard, the related movement in the regulatory deferral account balance is also presented in other comprehensive income.
- (4) The recovery from, or refund to, customers of future income taxes through future rates is recognised as a regulatory deferral account balance. The company has recognised a deferred tax asset of CU12,710 (20X6 – CU9,540) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account credit balance of CU12,710 (20X6 – CU9,540). The deferred tax asset balance is presented within the total regulatory deferral account debit balances presented in the statement of financial position.
- (5) The net movement of CU30,720 in the remaining regulatory deferral account balances is presented in the profit or loss section of the statement of profit or loss and other comprehensive income, net of the movement in the deferred tax asset related to the regulatory deferral account balances of CU3,170 [CU (8,474 – 6,360) + CU (4,236 – 3,180)]. The remaining net movement of CU30,720 consists of:

Decrease in regulatory deferral account debit balances (CU100,240 – CU102,330)	(2,090)
Less: increase in pension cost regulatory deferral account debit balance presented in other comprehensive income (CU12,270 – CU5,130)	(7,140)
	<u>(9,230)</u>
Increase in regulatory deferral account credit balances (CU97,960 – CU76,470)	(21,490)
	<u>(21,490)</u>
Net movement in regulatory deferral account balances presented in profit or loss	<u>30,720</u>

Example 2—Discontinued operations and taxation

- IE3 Paragraphs 25 and 34 of this Standard require an entity to disclose the regulatory deferral account debit and credit balances and the net movement in those balances that relate to discontinued operations and disposal groups and to deferred taxes respectively. Paragraphs B19–B22 provide additional guidance relating to these disclosures. In particular, paragraphs B20–B21 permit an entity to present the regulatory deferral account amounts that are related to discontinued operations or disposal groups alongside the other regulatory deferral account amounts that are presented in the statement of financial position or the statement of profit or loss and other comprehensive income, or disclose them in the table that is required by paragraph 33. Example 2 illustrates how these requirements might be met, but is not intended to illustrate all aspects of this Standard or IFRS more generally.

- IE4 In this example, the entity is in the process of disposing of one of its wholly-owned, rate-regulated subsidiaries and, consequently, is presenting the assets and liabilities of that subsidiary as a disposal group in the statement of financial position in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. In addition, the results of that subsidiary are presented in a single line item in the statement of profit or loss as a discontinued operation. The entity has decided that the amounts related to the regulatory deferral account balances included in the disposal group should be presented separately in the statement of financial position as permitted by paragraph B20.
- IE5 In addition, the entity has decided to present separately the deferred tax asset balance that relates to the recognition of regulatory deferral account balances that are expected to be recovered (reversed) through future rates by presenting additional line items for the deferred tax asset balance and the movement in it, as permitted by paragraphs 24 and B11–B12.

XYZ Group—Statement of financial position as at 31 December 20X7 (extract)

(in currency units)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
AAA	x	x
	888,910	935,920
Current assets		
BBB	x	x
	x	x
Disposal group assets	15,200	—
	464,640	476,410
Total assets	1,353,550	1,412,330
Regulatory deferral account debit balances directly related to disposal group	9,800	—
Other regulatory deferral account debit balances	90,440	102,330
Deferred tax asset associated with regulatory deferral account balances	12,710	9,540
Total assets and regulatory deferral account debit balances	1,466,500	1,524,200

XYZ Group—Statement of financial position as at 31 December 20X7 (extract)

(in currency units)

	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent	x	x
Non-controlling interests	x	x
Total equity	973,750	831,500
Non-current liabilities		
DDD	x	x
	177,650	238,280
Current liabilities		
EEE	x	x
	x	x
Disposal group liabilities	2,540	—
	217,140	377,950
Total liabilities	394,790	616,230
Total equity and liabilities	1,368,540	1,447,730
Regulatory deferral account credit balances directly related to disposal group	17,460	—
Other regulatory deferral account credit balances	80,500	76,470
Total equity, liabilities and regulatory deferral account credit balances	1,466,500	1,524,200

Note: regulatory deferral account balances are not described as assets or liabilities for the purposes of this Standard. The sub-totals described as “Total assets” and “Total liabilities” are comparable to those that would be presented if the regulatory deferral account balances were not recognised. The difference between these two sub-totals represents the net balance of all regulatory deferral account balances recognised and any related deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances, which would otherwise be recognised within retained earnings or other components of equity.

XYZ Group—Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7 (extract)
(illustrating the presentation of profit or loss and other comprehensive income in one statement)
(in currency units)

	20X7	20X6
Revenue	390,000	358,784
FFF	x	x
Profit before tax	196,685	106,204
Income tax expense	(43,587)	(44,320)
Profit for the year from continuing operations	153,098	61,884
Loss for the year from discontinued operations	(3,500)	—
Profit for the year before net movements in regulatory deferral account balances	149,598	61,884
Net movement in regulatory deferral account balances related to profit or loss	(30,720)	(9,127)
Net movement in the deferred tax asset arising from regulatory deferral account balances related to profit or loss	3,170	12,320
Profit for the year and net movements in regulatory deferral account balances	122,048	65,077
Other comprehensive income: Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit pension plans	(7,938)	(3,784)
Net movement in regulatory deferral account balances related to other comprehensive income	7,140	4,207
Other comprehensive income for the year, net of income tax	(798)	423
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	121,250	65,500

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Regulatory deferral account balances

Regulatory deferral account debit balances	20X6	Balances arising in the period	Recovery/ reversal	Other movements	20X7	Remaining recovery/ reversal period (years)
<i>Electricity distribution</i>						
Construction costs	18,720	5,440	(80)	–	24,080	4–10
Storm damage	64,410	–	(12,060)	(9,800)	42,550	4
Other regulatory balances	6,270	2,320	(950)	–	7,640	4–10
<i>Gas distribution</i>						
Pension costs	5,130	10,120	(2,980)	–	12,270	N/A
Gas cost variances	7,800	–	(3,900)	–	3,900	1
	102,330	17,880	(19,970)	(9,800)	90,440	
<i>Disposal group</i>	–	–	–	9,800	9,800	
	102,330	17,880	(19,970)	–	100,240	

**Regulatory deferral
account credit balances**

<i>Electricity distribution</i>						
Land disposal	–	19,000	–	–	19,000	10
Income tax	6,360	3,207	(1,093)	–	8,474	1–10
<i>Gas distribution</i>						
Gas cost variances	600	4,000	(200)	–	4,400	2–3
Income tax	3,180	1,603	(547)	–	4,236	1–10
Decommissioning costs	66,330	(2,030)	(2,450)	(17,460)	44,390	3–20
	76,470	25,780	(4,290)	(17,460)	80,500	
<i>Disposal group</i>	–	–	–	17,460	17,460	
	76,470	25,780	(4,290)	–	97,960	

Notes:

- (1) The net movement in the pension costs regulatory deferral account balance of CU7,140 (CU12,270 – CU5,130) relates to the remeasurement of the defined benefit pension plan, which is presented in other comprehensive income in accordance with IAS 19 *Employee Benefits*. In accordance with paragraph 22 of this Standard, the related movement in the regulatory deferral account balance is also presented in other comprehensive income.

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- (2) The recovery from, or refund to, customers of future income taxes through future rates is recognised as a regulatory deferral account balance. The company has recognised a deferred tax asset of CU12,710 (20X6 – CU9,540) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account credit balance of CU12,710 (20X6 – CU9,540). The deferred tax asset balance is presented separately alongside the total of regulatory deferral account debit balances in the statement of financial position. Similarly, the net movement in the deferred tax asset related to the regulatory deferral account balances of CU3,170 [CU(8,474 – 6,360) + CU(4,236 – 3,180)] is presented separately in the statement of profit or loss.
- (3) The net movement of CU30,720 in the remaining regulatory deferral account balances is presented in the profit or loss section of the statement of profit or loss and other comprehensive income. This remaining net movement consists of:
- | | |
|---|-----------------|
| Decrease in regulatory deferral account debit balances
(CU100,240 – CU102,330) | (2,090) |
| Less: increase in pension cost regulatory deferral account
debit balance presented in other comprehensive income
(CU12,270 – CU5,130) | (7,140) |
| | <u>(9,230)</u> |
| Increase in regulatory deferral account credit balances
(CU97,960 – CU76,470) | (21,490) |
| | <u>(30,720)</u> |
- (4) In this example, the other movements represent transfers to the disposal group and have been shown separately in accordance with paragraph 33(a)(iii). If there are other movements that require separate disclosure, such as those caused by impairments or the effects of changes in foreign exchange rates or discount rates, these could be shown in a separate column or another method of disclosure, such as a footnote to the table.