

IASB documents published to accompany

IFRS 14

Regulatory Deferral Accounts

The text of the unaccompanied standard, IFRS 14, is contained in Part A of this edition. The text of the Basis for Conclusions on IFRS 14 is contained in Part C of this edition. Its effective date when issued was 1 January 2016. This part presents the following document:

ILLUSTRATIVE EXAMPLES

IFRS 14 Regulatory Deferral Accounts Illustrative Examples

These examples accompany, but are not part of, IFRS 14.

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 | 1,466,500 | 1,524,200 |

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 |
| Total equity | <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 | <u>394,790</u> | <u>616,230</u> |
| Total equity and liabilities | <u>1,368,540</u> | <u>1,447,730</u> |
| Regulatory deferral account credit balances | 97,960 | 76,470 |
| Total equity, liabilities and regulatory deferral account credit balances | <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 | <u>(237,062)</u> | <u>(230,000)</u> |

IFRS 14 IE

| | | |
|--|----------------|----------------|
| 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 |
| 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.
- (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) | <u>(7,140)</u> |
| | (9,230) |
| Increase in regulatory deferral account credit balances (CU97,960 – CU76,470) | <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 | <u>x</u> | <u>x</u> |
| | 888,910 | 935,920 |
| Current assets | | |
| BBB | <u>x</u> | <u>x</u> |
| | x | x |
| Disposal group assets | <u>15,200</u> | <u>–</u> |
| | 464,640 | 476,410 |

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

| | 31 Dec 20X7 | 31 Dec 20X6 |
|---|------------------|------------------|
| 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 |

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***Electricity distribution*

| | | | | | | |
|---------------|-------|--------|---------|---|--------|------|
| Land disposal | – | 19,000 | – | – | 19,000 | 10 |
| Income tax | 6,360 | 3,207 | (1,093) | – | 8,474 | 1–10 |

Gas distribution

| | | | | | | |
|--------------------|-------|-------|-------|---|-------|------|
| 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.
- (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) | <u>(7,140)</u> |
| | (9,230) |
| Increase in regulatory deferral account credit balances (CU97,960 – CU76,470) | <u>(21,490)</u> |
| Net movement in regulatory deferral account balances presented in profit or loss | <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.

