INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD

INT SB-FRS 121

Levies
Illustrative Examples

This Guidance is applicable for annual reporting period beginning on 1 January 2019.

Illustrative examples

These examples accompany, but are not part of, INT SB-FRS 121.

IE1 The objective of these examples is to illustrate how an entity should account for a liability to pay a levy in its annual financial statements and in its interim financial report.

Example 1—A levy is triggered progressively as the entity generates revenue

Entity A has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered progressively as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X1.

In this example, the liability is recognised progressively during 20X1 as Entity A generates revenue, because the obligating event, as identified by the legislation, is the generation of revenue during 20X1. At any point in 20X1, Entity A has a present obligation to pay a levy on revenue generated to date. Entity A has no present obligation to pay a levy that will arise from generating revenue in the future.

In the interim financial report (if any), the liability is recognised progressively as Entity A generates revenue. Entity A has a present obligation to pay the levy on revenue generated from 1 January 20X1 to the end of the interim period.

Example 2—A levy is triggered in full as soon as the entity generates revenue

Entity B has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full as soon as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X0. Entity B generated revenue in 20X0 and in 20X1 starts to generate revenue on 3 January 20X1.

In this example, the liability is recognised in full on 3 January 20X1 because the obligating event, as identified by the legislation, is the first generation of revenue in 20X1. The generation of revenue in 20X0 is necessary, but not sufficient, to create a present obligation to pay a levy. Before 3 January 20X1, Entity B has no present obligation to pay a levy. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the point at which Entity B first generates revenue in 20X1. The generation of revenue in 20X0 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenue generated in 20X0 only affects the measurement of the liability.

In the interim financial report (if any), the liability is recognised in full in the first interim period of 20X1 because the liability is recognised in full on 3 January 20X1.

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date

Entity C is a bank and has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full only if an entity operates as a bank at the end of the annual reporting period. The amount of the levy is calculated by reference to the amounts in the statement of financial position of the entity at the end of the annual reporting period. The end of the annual reporting period of Entity C is 31 December 20X1.

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date

In this example, the liability is recognised on 31 December 20X1 because the obligating event, as identified by the legislation, is Entity C operating as a bank at the end of the annual reporting period. Before that point, Entity C has no present obligation to pay a levy, even if it is economically compelled to continue to operate as a bank in the future. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the entity operating as a bank at the end of the annual reporting period, which does not occur until 31 December 20X1. The conclusion would not change even if the amount of the liability is based on the length of the reporting period, because the obligating event is the entity operating as a bank at the end of the annual reporting period.

In the interim financial report (if any), the liability is recognised in full in the interim period in which 31 December 20X1 falls because the liability is recognised in full on that date.

Example 4—A levy is triggered if the entity generates revenue above a minimum amount of revenue

Entity D has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered if an entity generates revenue above CU50 million in 20X1.[a] The amount of the levy is calculated by reference to revenue generated above CU50 million, with the levy rate at 0 per cent for the first CU50 million revenue generated (below the threshold) and 2 per cent above CU50 million revenue. Entity D's revenue reaches the revenue threshold of CU50 million on 17 July 20X1.

In this example, the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date that exceeds the threshold of CU50 million revenue.

In the interim financial report (if any), the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold.

<u>Variation:</u>

Same fact pattern as above (ie a levy is triggered if Entity D generates revenue above CU50 million in 20X1), except that the amount of the levy is calculated by reference to all revenue generated by Entity D in 20X1 (ie including the first CU50 million revenue generated in 20X1)

In this example, the liability for the payment of the levy related to the first CU50 million revenue is recognised on 17 July 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenue generated above the threshold is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenue above the threshold, because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date, including the first CU50 million revenue. The same recognition principles apply in the interim financial report (if any) as in the annual financial statements.

a In this Interpretation, currency amounts are denominated in 'currency units' (CU).