



# Technical Accounting Alert

## Revised AASB 101 Presentation of Financial Statement

### Purpose

The purpose of this Alert is to provide information regarding revised AASB 101 *Presentation of Financial Statements* to allow changes to be identified and relevant amendments to systems to be made on a timely basis.

The revised AASB 101 is effective for annual reporting periods commencing on or after 1 January 2009 (i.e. 31 December 2009 for December year ends and 30 June 2010 for June year ends), although early adoption is permitted.

### Summary of key changes

An overview of the key changes to AASB 101 (July 2007) are that an entity should:

- Present the details of other comprehensive income either:
  - Immediately following the income statement / statement of financial performance (i.e. a single statement) or
  - In a separate statement (the current “statement of recognised income and expenses)
  - Note: the details of other comprehensive income should be presented separately from the statement of changes in equity, which will include only owner changes in equity on an ongoing basis.
- Present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or make a retrospective restatement, as defined in AASB 108, or when an entity reclassifies items in the financial statements.

### Background

The AASB has reissued AASB 101, in line with the IASB’s reissue of IAS 1, which includes a number of changes for Australian entities.

The issue of this revised standard is part of the IASB’s harmonisation project with the US accounting standards board (FASB) and represents the completion of phase A of the *Financial Statements Presentation Project* which aims to enhance the usefulness of information presented in the financial statements.

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## Detailed information on key changes

### Comprehensive income

AASB 101 requires disclosures of comprehensive income which will allow users of the financial statements to analyse changes in an entity's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties).

Owners have been defined as "holders of instruments classified as equity".

The introduction of a Statement of Comprehensive Income sees the removal of the income statement / statement of financial performance as we know it. Entities must now present a statement of comprehensive income, which is effectively the income statement / statement of financial performance plus all "other comprehensive income".

Entities can choose to either present:

- 1 one statement showing both income and other comprehensive income (i.e. a combination of the existing income statement and the statement of income and expenses), or
- 2 two statements, the first being the income statement / statement of financial position and then a reconciliation of income to "other comprehensive income".

### What is comprehensive income?

AASB 101 defines comprehensive income as comprising "items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Australian Accounting Standards."

### Statement of Comprehensive Income

This includes both:

- net result as currently calculated; and
- "other comprehensive income", such as:
  - changes in revaluation surplus for tangible and intangible fixed assets (AASB 116, AASB 138)
  - actuarial gains and losses on defined benefits plans (AASB 119)
  - gains and losses arising from the conversion of foreign operations (AASB 121)
  - fair value changes in available-for-sale financial assets (AASB 139)
  - the effective portion of changes in fair value in a cash flow hedge (AASB 139)
  - share of other comprehensive income (after tax) of associates and equity accounting joint ventures (AASB 128, AASB 131)
  - income tax relating to components of other comprehensive income (see comment below)

Note: Profit or loss and total comprehensive income for the period attributable to owners of the parent and to minority interest ("other controlling interest") must be separately disclosed.

Illustrations:

- 1 Income statement / statement of financial performance and statement of comprehensive income in one statement

	2009 (\$m)
<b>Revenue from continuing operations</b>	100
Other income	20
Raw materials and consumables used	(35)
Employee benefits expense	(25)
Depreciation and amortisation expense	(10)
Impairment of goodwill	(2)
Other expenses	(12)
Finance costs	(5)
<b>Profit before income tax</b>	<b>31</b>
Income tax expense	(9)
Profit from continuing operations	22
<b>Profit for the year</b>	<b>22</b>
<b>Other comprehensive Income</b>	
Gain on revaluation of land and buildings	10
Fair value movements on available-for-sale financial assets	(6)
Income tax relating to components of other comprehensive income	(2)
<b>Other comprehensive income for the year, after tax</b>	<b>2</b>
<b>Total comprehensive income for the year</b>	<b>24</b>

- 2 Income statement / statement of financial performance and statement of comprehensive income in separate statements

Where this option is selected, the income statement is to be presented immediately before the statement of comprehensive income.

*Income statement*

	2009 (\$m)
Revenue from continuing operations	100
Other income	20
Raw materials and consumables used	(35)
Employee benefits expense	(25)
Depreciation and amortisation expense	(10)
Impairment of goodwill	(2)
Other expenses	(12)
Finance costs	(5)
<b>Profit before income tax</b>	<b>31</b>
Income tax expense	(9)
Profit from continuing operations	22
<b>Profit for the year</b>	<b>22</b>



## *Statement of Comprehensive Income<sup>1</sup>*

	2009 (\$m)
<b>Profit for the year</b>	22
<b>Other comprehensive income</b>	
Gain on revaluation of land and buildings	10
Fair value movements on available-for-sale financial assets	(6)
Income tax relating to components of other comprehensive income	(2)
<b>Other comprehensive income for the year, after tax</b>	2
<b>Total comprehensive income for the year</b>	24

### **Related tax effects on other comprehensive income**

Components of other comprehensive income may be either presented:

- net of related tax effects (“net presentation”) or,
- before related tax effects with one amount shown for the aggregate amount of income tax relating to those components (as shown above) (“gross presentation”).

Net presentation facilitates the identification of other comprehensive income in the equity section of the balance sheet / statement of financial position.

Gross presentation facilitates the traceability of other comprehensive income to profit or loss.

Regardless of whether the net or gross presentation is used, the amount of income tax relating to each component of other comprehensive income must be disclosed in the statement of comprehensive income or in the notes to the financial statements.

### **Statement of changes in equity**

With the separation of transactions with owners and non-owners and the introduction of the statement of comprehensive income; the statement of changes in equity only includes details of transactions with owners, for example dividends.

### **Changes in the presentation of dividends**

The current option to disclose dividends paid to equity holders in the income statement / statement of financial performance has been removed and therefore the amount of the dividend and related amount per share are to be presented in either the statement of changes in equity or in the notes the financial statements.

### **New presentation requirements for restatements or reclassifications**

Where an entity makes:

- a retrospective change in accounting policy,
- restates comparative information in the financial report or

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<sup>1</sup> This was formerly the ‘statement of recognised income and expenses’

- reclassifies items in the financial report
- they must present an opening balance sheet / statement of financial position for the beginning of the earliest comparative period. Therefore a complete set of financial statements would include three balance sheets / statements of financial position in these situations.

For example, if a change is made to the figures for the year ended 30 June 2009 in the June 2010 financial year, then a balance sheet / statement of financial position would be presented for:

- 30 June 2010 (being end of current period)
- 30 June 2009 (being end of comparative period) and
- 1 July 2008, (beginning of the earliest comparative period).

The adjustment to retained earnings would be reflected in the statement of changes in equity as a restatement of the opening balance.

#### Reclassification adjustments

Amounts taken to the income statement / statement of financial performance in the current period which were shown as part of other comprehensive income in a prior year must be separately disclosed. This reclassification amount is to be shown in the statement of comprehensive income or the notes to the financial statements in the year of sale.

For example:

Cumulative changes in the fair value of available for sale financial assets which were previously taken to an equity accounted are taken to the income statement / statement of financial performance when the asset is sold.

#### Terminology

There is harmonisation of Australian terminology with that contained in the International Standards, for example:

- The term 'general purpose financial' becomes 'general purpose financial statements'
- The term 'financial report' becomes 'financial statements'
- 'income statement' becomes 'statement of comprehensive income';
- 'balance sheet' is (again) amended to 'statement of financial position';
- 'cash flow statement' becomes 'statement of cash flows'; and
- 'subsequent balance sheet date' is amended to 'end of the subsequent reporting period'.

Paragraph 10 of AASB 101 **does not mandate** these terminology changes stating that "An entity may use titles for the statements other than those used in this Standard," however the revised titles will be used in all accounting standards, therefore it may be easier to adopt the new terminology.

### **Other**

In addition to the changes discussed above, the sections of the standard have been reordered to make it easier to read and words have been changed for consistency with other standards.

### **Action required:**

- Information should be compiled for the comparative period in the first year of adoption of the revised AASB 101.
- If early adopted then AASB 2007 – 8 must also be early adopted; a Director's minute is required for all early adoptions of standards.
- Entities will need to consider whether to present the statement of comprehensive income as a single statement or two statements.
- Consider whether there are any reclassifications or restatements in the comparative period which would require the production of an opening balance sheet.

### **Further information**

Further information on any of the above standards / interpretations can be obtained from your local Grant Thornton Australia contact or a member of the National Audit Support team on [NAS@grantthornton.com.au](mailto:NAS@grantthornton.com.au)

