Grant Thornton

Technical Accounting Alert

First Annual Improvements Project

Introduction

The IASB has published *Improvements to IFRSs* ('the 2008 Improvements') which makes minor amendments to a number of International Financial Reporting Standards (IFRSs). This publication completes the IASB's first round of annual improvements.

This standard has been issued in Australia as AASB 2008-5 and AASB 2008-6 and includes the same amendments to the Australian accounting standards – references below are to the AASB's for convenience.

Background to the 2008 Improvements

The annual improvements process has been developed to address non-urgent, but necessary, minor amendments to IFRSs. Issues dealt with in this process arise from matters raised by the International Financial Reporting Interpretations Committee (IFRIC) and suggestions from staff or practitioners, and focus on areas of inconsistency in IFRSs or where clarification of wording is required.

The process involves the IASB discussing and deciding on proposed improvements to IFRSs as they arise throughout the year. Rather than making a series of piecemeal changes during the year, the process streamlines the improvement activity through publication of annual changes in a single document.

In October each year, an omnibus exposure draft of the collected proposals will be published for public comment, with a comment period of 90 days. After the IASB has considered the comments received, it will aim to issue the amendments in final form in the second quarter of the following year, with an effective date of 1 January of the year following that.

The standard was issued in Australia in July 2008 following the issue of the IASB standard in May 2008.

Structure of the 2008 Improvements

Part I of the 2008 Improvements includes amendments that result in accounting changes for presentation, recognition or measurement purposes – (AASB 2008 – 5).

Part II includes those amendments that are terminology or editorial changes only, which are expected to have no or minimal effect on accounting – (AASB 2008 – 6)

Standards affected

The following table sets out the AASBs that are affected by the amendments, the issue addressed and a brief description of the change. Reference should be made to the 2008 Improvement standard for more details (www.aasb.com.au).

Part I of the 2008 Improvements (amendments that result in accounting changes for presentation, recognition or measurement purposes)

Standard affected	Issue	Summary of change
AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*	Plan to sell the controlling interest in a subsidiary	Clarification that all the assets and liabilities of a subsidiary should be classified as held for sale if the entity is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.
AASB 101 *Presentation of Financial Statements*	Current/non-current classification	Amendment to examples in paragraphs 68 and 71 of AASB 101 (revised 2007) to clarify that financial instruments classified as held for trading in accordance with AASB 139 are not necessarily required to be presented as current assets/current liabilities. Instead AASB 101's normal classification principles should be applied.
AASB 116 *Property, Plant and Equipment*	Recoverable amount	The term ‘net selling price’ has been replaced with ‘fair value less cost to sell’ in the definition of recoverable amount so as to achieve consistency with the terminology used in AASB 5.
	Sale of assets held for rental	Amendment to clarify that an entity which, in the course of ordinary activities, sells property, plant and equipment that was held for rental to others transfers the PP&E assets to inventories at carrying amount when they cease to be rented and are held for sale. The proceeds from sale are to be recognised as revenue in accordance with AASB 118. AASB 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.
AASB 119 *Employee Benefits*	Curtailments and negative past service cost	Clarification that negative past service cost arises when benefits are changed as a result of a plan amendment so that the present value of the defined benefit obligation decreases.
	Plan administration costs	Change to definition of return on plan assets to require the deduction of plan administration costs only to the extent not included in actuarial assumptions used to measure defined benefit obligation.
	Replacement of term ‘fall due’	Amendment of the definition of short-term employee benefits and other long-term employee benefits to replace the term ‘fall due wholly’ with the term 'due to be settled'. This may affect classification and require some benefit plans to be split between short- and long-term.
	Guidance on contingent liabilities	Removal of the reference to ‘recognition’ in relation to contingent liabilities, in order to be consistent with AASB 137 (which prohibits recognition of a contingent liability).
AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*	Government loans with a below-market rate of interest	Amendment to require that the benefit of a government loan with a below-market rate of interest is treated as a government grant. The benefit is measured as the difference between the proceeds received and the initial carrying value of the loan determined in accordance with AASB 139.
AASB 123 *Borrowing Costs*	Components of borrowing costs	Paragraphs 6(a)-(c) of AASB 123 have been replaced with an explicit requirement to determine interest expense using AASB 139's effective interest rate method.
AASB 127 *Consolidated and Separate Financial Statements*	Measurement of subsidiary held for sale in separate financial statements	Amendment requiring that when an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with AASB 139 (rather than at cost), such investments continue to be measured using AASB 139 even if classified as held for sale in accordance with AASB 5. Investments measured at cost will continue to be re-measured in accordance with AASB 5 when classified as held for sale.

Standard affected	**Issue**	**Summary of change**
AASB 128 *Investments in Associates*	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarification of disclosures for investments in associates accounted for at fair value in accordance with AASB 139.
	Impairment of investment in associate	Clarification that an investment in an associate is treated as a single asset for impairment testing. The amendment explains that an impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of such an impairment loss should be recognised to the extent that the recoverable amount of the investment subsequently increases.
AASB 131 *Interests in Joint Ventures*	Required disclosures when interests in jointly controlled entities are accounted for at fair value	Clarification of disclosures for interests in jointly controlled entities accounted for at fair value in accordance with AASB 139.
AASB 129 *Financial Reporting in Hyperinflationary Economies*	Description of measurement basis in financial statements	Clarification that a number of assets and liabilities may or must be measured on the basis of a current value rather than historical value.
AASB 136 *Impairment of Assets*	Disclosure of estimates used to determine recoverable amount	Amendment requiring additional disclosures when fair value less costs to sell is determined using discounted cash flows.
AASB 138 *Intangible Assets*	Advertising and promotional activities	Amendments to clarify when an entity can recognise a prepayment asset, including for advertising or promotional expenditure. In the case of supply of goods, the entity recognises such expenditure as an expense when it has a right to access the goods. For services, an expense is recognised on receiving the services. Some entities will need to 'expense' costs for promotional catalogues and similar sooner.
	Units of production method of amortisation	Removal of prohibition of amortisation methods that result in lower amortisation than the straight line method.
AASB 139 *Financial Instruments: Recognition and Measurement*	Reclassification of derivatives into or out of the classification of at fair value through profit or loss	AASB 139 prohibits reclassification of financial instruments into or out of fair value through profit or loss after initial recognition. The amendments clarify that derivatives which cease to qualify as hedging instruments, derivatives designated as such and financial assets that are reclassified when an insurance company changes its accounting policies in accordance with AASB 4.45 do not represent reclassifications.
	Designating and documenting hedges at the segment level	References to the designation of hedging instruments at the segmental reporting level have been removed.
	Applicable effective interest rate (EIR) on cessation of fair value hedge accounting	AASB 139.AG8 has been amended to clarify that the revised EIR (calculated in accordance with AASB 139.92 on cessation of fair value hedge accounting) should be applied when cash flows estimates change for instruments that were previously hedged items.
AASB 140 *Investment Property*	Investment property under construction or development	AASB 140.8 has been amended to bring property that is being constructed or developed for future use as an investment property within the scope of AASB 140 (the AASB 140 fair value model may therefore be applied). Previously AASB 116 applied to such property until completion.

Standard affected	Issue	Summary of change
AASB 141 *Agriculture*	Additional biological transformation	Removal of the prohibition on taking increases in value from additional biological transformation into consideration when calculating the fair value of biological assets using estimated cash flows.

Part II of the 2008 Improvements

Part II contains amendments that are terminology or editorial changes only with no or minimal expected effect on accounting:

Standard affected	Subject of amendment
AASB 7 *Financial Instruments: Disclosures*	Presentation of finance costs
AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*	Status of implementation guidance
AASB 110 *Events after the Reporting Period*	Dividends declared after the end of the reporting period
AASB 118 *Revenue*	Costs of originating a loan
AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*	Consistency of terminology with other IFRSs
AASB 129 *Financial Reporting in Hyperinflationary Economies*	Consistency of terminology with other IFRSs
AASB 134 *Interim Financial Reporting*	Earnings per share disclosures in interim financial reports
AASB 140 *Investment Property*	Consistency of terminology with AASB 108
	Investment property held under lease
AASB 141 *Agriculture*	Examples of agricultural produce and products
	Point-of-sale costs

Effective date

The effective date for each amendment is annual reporting periods beginning on or after 1 January 2009, with early adoption permitted in most circumstances.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au