Grant Thornton

Technical Accounting Alert

What's New for December 2009?

Introduction

The purpose of this alert is to provide information about new standards / interpretations which are mandatory for the first time for 31 December 2009 year ends.

Note that it does not include information about other pronouncements which are not effective at 31 December 2009 but are available for early adoption; for a detailed list of these, please refer to TA alert 2009 – 24.

Overview

With a number of new accounting standards coming into effect for annual accounting periods beginning on or after 1 January 2009 (i.e. 31 December 2009 year ends), now is the time to ensure that all necessary changes to your 2009 financial statements have been identified. Plans to implement any necessary changes to accounting policies and disclosures should be well in hand.

For a full list of new standards and amendments that will come into effect for December 2009 year ends, see Appendix One: Prononcements mandatory for the first time at December 2009. The following paragraphs are a brief reminder of the most significant changes.

IAS 1 / AASB 101 Presentation of Financial Statements

IAS 1 'Presentation of Financial Statements' was revised in 2007 to make the information presented in a set of financial statements more useful to the user. The 2007 changes take mandatory effect for years beginning on or after 1 January 2009.

Under the revised Standard:

- all items of income and expense in the period are required to be presented in a single 'statement of comprehensive income' or in two statements: a 'separate income statement' and a 'statement of comprehensive income'

- an additional statement of financial position, covering the beginning of the earliest comparative period presented, is required in certain circumstances

When is an additional statement of financial position presented?
An additional statement of financial position is presented when:

- the entity retrospectively applies an accounting policy; or
- makes a retrospective restatement; or
- reclassifies items in its financial statements.

- a 'statement of changes in equity' is required to be presented as a primary statement in all circumstances. The contents of this compulsory statement are restricted to changes in equity arising from owners in their capacity as owners (eg dividends, new share issues). Any non-owner changes in equity (eg revaluations) are detailed in the statement of comprehensive income and are shown in the statement of changes in equity

Grant Thornton's 'Example Consolidated Financial Statements' illustrate these new presentation and disclosure requirements for a fictional entity that presents its financial statements under IFRS.

TA Alert 2008 – 08 also provides detailed information on the changes.

IAS 8 / AASB 8 Operating Segments

IFRS 8 'Operating Segments' replaces IAS 14 'Segment Reporting'; however the scope of IFRS 8 (listed entities and those in the scope of listing) is significantly reduced from the superseded standard AASB 114 Segment Reporting (previously applicable to all reporting entities) in Australia.

IFRS 8 requires entities to adopt the 'management approach' to reporting on their operating segments. The segment results disclosed in annual financial statements are to be based on the reports used by management to evaluate segment performance and to allocate resources to operating segments.

These internal reports will typically use different accounting conventions to those required in the IFRS primary statements. IFRS 8 therefore requires reconciliations between the entity's segment results and its reported IFRS figures.

There may be some very practical difficulties for preparers in moving to this new standard. Grant Thornton's guide Operating Segments – Applying IFRS 8 in Practice will help you in dealing with these difficulties.

IAS 23 Borrowing Costs

The revised version of IAS 23 'Borrowing Costs':

- eliminates the previous benchmark treatment of recognising borrowing costs as an expense
- requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of that asset
- requires all other borrowing costs to be expensed as incurred

The revised version becomes effective for years beginning on or after 1 January 2009.

Entities whose previous accounting policy was to expense all borrowing costs are required to apply the revised Standard prospectively to new qualifying assets for which development commenced after that date.

However, an entity may wish to apply the capitalisation requirements to qualifying assets for which the commencement date was before 1 January 2009. An entity is permitted to designate any date before 1 January 2009 and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date is on or after that designated date.

For more information please refer to Grant Thornton's publication Capitalisation of borrowing costs – From theory to practice.

Amendments to IFRS 7 Financial Statements: Disclosure

The IASB has made several amendments to IFRS 7 'Financial Instruments: Disclosures' in response to the credit crisis. Changes were made in October 2008 as a result of the IASB's decision to relax the rules regarding the reclassification of financial assets.
Further changes were then made in March 2009, to:

- explain more clearly how entities determine the fair value of their financial instruments by use of a three-level fair value hierarchy
- improve the disclosure of liquidity risk

Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation

Exceptions to IAS 32's basic principle of liability and equity classification were introduced in 2008 by the 'Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation'.

The Amendments introduce a set of criteria which, if met, require some instruments which would otherwise have been classified as liabilities to be classified as equity. They cover two types of financial instruments:

- puttable instruments (broadly instruments which give the holder the right to put the instrument back to the issuer for cash or which are automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the holder)
- instruments with obligations arising on liquidation

Although the criteria set are stringent such that the Amendments will only alter classification in some narrowly defined cases, they will have a significant impact on the reported results and financial position of those entities which are affected.

Our guide Liability or equity? A practical guide to the classification of financial instruments under IAS 32 provides extensive insights into the more problematic aspects of debt and equity classification under IAS 32, including those that are expected to arise from the Puttable Financial Instruments and Obligations Arising on Liquidation amendments.

IFRS for SMEs

In July 2009 the IASB published International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs). IFRS for SMEs has the potential to revolutionise and harmonise financial reporting by private companies across the world. See TA alert 2009 - 18 for details of the IFRS for SME standard.

The IASB effective date is immediate, however the decision is still to be made regarding applicability in Australia.

A discussion paper regarding applicability in Australia is expected to be released by the end of the year.

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

Appendix One: Pronouncements mandatory for the first time at December 2009

New IFRS Standards and IFRIC Interpretations that are mandatory for the first time in December 2009 financial statements.

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities	IASB effective date is immediate, however decision is still to be made regarding applicability in Australia
IFRIC 18 / Interpretation 18	Transfers of Assets from Customers	Transfers of assets on or after 1 July 2009
IAS 32 / AASB 132 and IAS 1 / AASB 101 AASB 2008-2	Amendments to Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IFRS 1 and IAS 27	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements	1 January 2009
IFRS 7 / AASB 7 / AASB 2009-2	Amendments to IFRS 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments	1 January 2009
IFRS 2 AASB 2008-1	Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009
IAS 1 / AASB 101 / AASB 2007-8/ AASB 2007-10	Presentation of Financial Statements Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009
IAS 23 / AASB 123 /AASB 2007-6	Amendments to IAS 23 Borrowing Costs	1 January 2009

IFRS 8 / AASB 8 / AASB 2007-3	Operating Segments Amendment arising from the release of AASB 8	1 January 2009
IFRIC 15 / Interpretation 15	Agreements for the Construction of Real Estate	1 January 2009
AASB 2008-5	Annual Improvements to IFRSs 2008 (unless otherwise stated)	1 January 2009
AASB 2008-7	Amendments to accounting for the cost of an investment in a subsidiary, jointly conrolled entity or associate	1 January 2009
AASB 1039	Concise Financial Reports	1 January 2009
AASB 2009-6	Amendments to Australian Accounting Standards	1 January 2009

New AASB Standards which are government specific that are mandatory for the first time in December 2009 financial statements.

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after
AASB 1049	Whole of Government and General Government Sector Financial Reporting	1 January 2009
AASB 2009-1	Amendments to accounting for borrowing costs of not-for-profit public sector entities	1 January 2009