



Technical Accounting Alert

What's New for June 2010?

Introduction

The purpose of this alert is to provide information about new standards / interpretations which are to be applied for the first time by 30 June 2010 year ends.

Note that this alert does not include information about other pronouncements which are available for early adoption at 30 June 2010 but are not mandatory; for a detailed list of these, please refer to [TA Alert 2010-08](#).

Overview

With a number of new accounting standards coming into effect for annual accounting periods beginning on or after 1 January 2009 or 1 July 2009 (i.e. 31 December 2009 or 30 June 2010 year ends), now is the time to ensure that all necessary changes to your 2009-2010 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 June 2010 year ends, see Appendix One: Pronouncements applicable for the first time for June 2010 reporters.

The following paragraphs are a brief reminder of the most significant changes with references on where to get additional information.

IAS 1 / AASB 101 Presentation of Financial Statements

Revised AASB 101 took effect at 31 December 2009 and therefore will impact June reporters at 30 June 2010.

Under the revised Standard:

1. 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'
2. an additional statement of financial position (and associated notes), covering the beginning of the earliest comparative period presented, is required in certain circumstances

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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.

3. 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 (e.g. dividends, new share issues). Any non-owner changes in equity (e.g. 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', 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.

Whilst entities within its scope should have considered the impact of AASB 8 for their December interim reporting, 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 / AASB 123 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; and
- requires all other borrowing costs to be expensed as incurred.

The revised version becomes effective for years beginning on or after 1 January 2009 and therefore will impact 30 June 2010 financial statements for the first time.

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.

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

IFRS 3 / AASB 3 Business Combinations and IAS 27 / AASB 127 Consolidated Financial Statements

The revised business combinations and consolidations standards are effective for 30 June 2010 year ends for acquisitions made after 1 July 2009.

Some of the more significant changes to these standards are:

- acquisition costs are to be expensed;
- contingent consideration is to be measured at fair value and changes to the fair value are taken to profit or loss;
- existing investments need to be remeasured to fair value in step acquisitions;
- goodwill is calculated only on crossing the control boundary; and
- transactions where control is maintained are considered to be transactions with owners and accounted for within equity.

Further information can be found in the [TA Alert 2008-12](#).

Amendments to IFRS 7 Financial Statements: Disclosure

Additional disclosures relating to financial instruments are required at 30 June 2010 to:

- explain more clearly how entities determine the fair value of their financial instruments by use of a three-level fair value hierarchy, the levels are described below:
 - **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - **Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
 - **Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs); and
- to improve the disclosure of liquidity risk.

See [TA Alert 2010-04](#) for more information.

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); and
- 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.

Grant Thornton's 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.

Reduced Disclosure Regime

We are still awaiting the AASB standard relating to the reduced disclosure regime; however in summary the proposals are:

- Required preparation of general purpose financial statements by entities whose financial statements are:
 - publicly available; and
 - required to be prepared in accordance with Accounting Standards.

This will include all companies who lodge with ASIC.

- Require non-publicly accountable entities (i.e. non-listed) to prepare general purpose financial statements which comply with all recognition and measurement requirements in the Australian Accounting Standards but with reduced disclosures.

The impact at 30 June 2010 is likely to be that unlisted entities currently preparing general purpose financial statements will early adopt the standard (when issued) to enable reduced disclosures to be included in the 30 June 2010 financial statements.

The mandatory application date for this standard is expected to be for annual reporting periods beginning on or after 1 July 2013, (i.e. 30 June 2014 year ends).

Corporate Reporting Reform Bill

The Corporate Reporting Reform Bill has been introduced into Parliament and is awaiting approval to be passed into law.

The Bill will provide financial reporting relief for entities as described below:

- reduction on the regulatory requirements on companies limited by guarantee. A tiered approach based on revenue and deductible gift recipient status is proposed to determine the level of statutory financial reporting and audit obligations;
- introduction of a 'solvency' rather than a 'profits' test for the payment of dividends which will remove some of the concerns around the current test;
- the removal of the Corporations Act requirement to prepare parent entity financial statements where consolidated financial statements are required; therefore removing all parent entity information from the financial statements except for limited disclosure of certain financial information.

See [TA Alert 2010-07](#) for further information on the draft bill.

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: New pronouncements for 30 June 2010 year ends

New Accounting standards and interpretations to be adopted for the first time for June reporters.

Title	Full title of Standard or interpretation	Effective for accounting periods beginning on or after
AASB 132 and AASB 101 AASB 2008-2	Amendments to Financial Instruments: Presentation and AASB 101 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
AASB 1 and AASB 127	Amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements	1 January 2009
AASB 7 / AASB 2009-2	Amendments to AASB 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments	1 January 2009
AASB 2 AASB 2008-1	Amendment to AASB 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009
AASB 101 / AASB 2007-8/ AASB 2007-10	Presentation of Financial Statements Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009
AASB 123 /AASB 2007-6	Amendments to AASB 123 Borrowing Costs	1 January 2009
AASB 8 / AASB 2007-3 / AASB 2009-6	Operating Segments Amendment arising from the release of AASB 8	1 January 2009
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 controlled entity or associate	1 January 2009
AASB 3 / AASB 127 / AASB 2008-3 / AASB 2008-11	Amendments to AASB 3 Business Combinations and AASB 127 Consolidated Financial Statements and consequential amendments to other accounting standards.	1 July 2009

Title	Full title of Standard or interpretation	Effective for accounting periods beginning on or after
Interpretation 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
Interpretation 17 / AASB 2008-13	Distribution of Non-Cash Assets to Owners	1 July 2009
Interpretation 18	Transfers of Assets from Customers	Transfers of assets on or after 1 July 2009
AASB 1	First-time Adoption of Australian Accounting Standards	1 July 2009
AASB 2008-6	Annual Improvements to IFRSs 2008 (unless otherwise stated)	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	1 July 2009
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project 2009	1 July 2009
AASB 2009-7	Amendments to Australian Accounting Standards [AASB 5,7,107,112,136,139, Interpretation 17]	1 July 2009

AASB Standards which are Australian specific that will be applied for the first time in 30 June 2010 financial statements

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after
AASB 1039	Concise Financial Reports	1 January 2009
AASB 2009-1	Amendments to accounting for borrowing costs of not-for-profit public sector entities	1 January 2009