



# Technical Accounting Alert

## What's new for June 2016?

### Introduction

The objective of this Technical Accounting (TA) Alert is to:

- provide information on new and revised Accounting Standards that are mandatorily applicable for the first time to 30 June 2016 annual and/or half-year ends; and
- highlight other recent financial reporting developments

This TA Alert incorporates all the relevant pronouncements and developments as at **4 April 2016**. Entities should also take into account any new pronouncements issued, or developments taking place, after this date if they are relevant for the financial year and/or half-years ending 30 June 2016.

Appendix A provides information on pronouncements issued by the Australian Accounting Standards Board (AASB) and/or the International Accounting Standards Board (IASB) that are not yet applicable.

For a comprehensive list of all the pronouncements issued by the AASB and the IASB that are not yet effective, refer to our latest TA Alert on this topic on our website ([http://www.grantthornton.com.au/Publications/Tools-and-resources/Technical-publications/Local\\_Alerts.asp](http://www.grantthornton.com.au/Publications/Tools-and-resources/Technical-publications/Local_Alerts.asp)).

### Overview

There are a number of new and revised Australian accounting requirements that apply mandatorily for the first time to annual and/or half-year reporting periods ending 30 June 2016, which are summarised in the table on the following page.

Standard / Interpretation	Mandatory effective date (Annual periods beginning on or after...)	Applicable for the first time to year ending 30 June 2016?	Applicable for the first time to half-year ending 30 June 2016?
AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> (Part C: Financial Instruments)	1 January 2015	✓	x
AASB 2014-1 <i>Amendments to Australian Accounting Standards</i> (Part D: Consequential Amendments arising from AASB 14 <i>Regulatory Deferral Accounts</i> )	1 January 2016	x	✓
AASB 2014-1 <i>Amendments to Australian Accounting Standards</i> (Part E: Financial Instruments)	1 January 2015	✓	x
AASB 2014-3 <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016	x	✓
AASB 2014-4 <i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016	x	✓
AASB 2014-6 <i>Amendments to Australian Accounting Standards – Agriculture: Bearer Plants</i>	1 January 2016	x	✓
AASB 2014-8 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)</i>	1 January 2015	✓	x
AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i>	1 January 2016	x	✓
AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle</i>	1 January 2016	x	✓
AASB 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	1 January 2016	x	✓
AASB 2015-3 <i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i>	1 July 2015	✓	✓
AASB 2015-4 <i>Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent</i>	1 July 2015	✓	✓
AASB 2015-5 <i>Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception</i>	1 January 2016	x	✓
AASB 2015-9 <i>Amendments to Australian Accounting Standards – Scope and Application Paragraphs</i>	1 January 2016	x	✓
AASB 2015-10 <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</i>	1 January 2016	x	✓
AASB 14 <i>Regulatory Deferral Accounts</i>	1 January 2016	x	✓
AASB 1057 <i>Application of Australian Accounting Standards</i>	1 January 2016	x	✓

### Requirements applying for the first time to annual or half-year periods ending 30 June 2016

Although a number of new and revised standards became effective for the annual or half-year periods ending 30 June 2016, this TA Alert focuses only on the relatively significant changes. Other standards are unlikely to have any significant impact on entities.

#### *AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*

The amendments to AASB 11 *Joint Arrangements* state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a ‘business’, as defined in AASB 3 *Business Combinations*, should:

- apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e., the existing interest is not re-measured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and
- provide disclosures for business combinations as required by AASB 3 and other Australian Accounting Standards.

AASB 2014-3 is applicable to annual reporting periods beginning on or after 1 January 2016.

#### *AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e., a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

AASB 2014-4 is applicable to annual reporting periods beginning on or after 1 January 2016.

#### *AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*

AASB 2014-6 defines bearer plants and requires bearer plants to be accounted for as property, plant and equipment within the scope of AASB 116 *Property, Plant and Equipment* instead of AASB 141 *Agriculture*.

The produce growing on bearer plants will remain within the scope of AASB 141.

AASB 2014-6 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*

The amendments introduce the equity method of accounting as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

AASB 2014-9 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*

These amendments arise from the issuance of *Annual Improvements to IFRSs 2012-2014 Cycle* in September 2014 by the IASB.

Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5.

AASB 2015-1 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project.

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

AASB 2015-2 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*

AASB 2015-4 amends AASB 128 *Investments in Associates and Joint Ventures* to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 *Consolidated Financial Statements* for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015.

*AASB 1057 Application of Australian Accounting Standards*

In May 2015, the AASB decided to revise Australian Accounting Standards that incorporate IFRSs to minimise Australian-specific wording even further. The AASB noted that IFRSs do not contain application paragraphs that identify the entities and financial reports to which the Standards (and Interpretations) apply. As a result, the AASB decided to move the application paragraphs previously contained in each Australian Accounting Standard (or Interpretation), unchanged, into a new Standard AASB 1057 *Application of Australian Accounting Standards*.

AASB 2015-9 *Amendments to Australian Accounting Standards – Scope and Application Paragraphs* removes the application paragraphs from each Australian Accounting Standard.

AASB 1057 and AASB 2015-9 are applicable to annual reporting periods beginning on or after 1 January 2016.

Other financial reporting developments that are relevant to annual periods ending 30 June 2016

ASIC focus areas for 30 June 2016

Australian Securities and Investments Commission (ASIC) are yet to announce its focus areas for 30 June 2016 financial reports. However, we expect them to be similar to the ASIC focus areas for 31 December 2015 financial reports, being:

- impairment testing and asset values
- off-balance sheet arrangements
- revenue recognition
- expense deferral
- tax accounting
- estimates and accounting policy judgements
- impact of new revenue and financial instrument standards

Refer to [TA Alert 2015-09](#) for further information.

When ASIC publishes its focus areas for 30 June 2016 financial reports, we will issue a new TA Alert which will be located under: <http://www.grantthornton.com.au/en/insights/technical-publications--ifrs/local-technical-and-financial-reporting-alerts/>.

Government decides to retain ACNC

On 4 March 2016, the Commonwealth Government's announced its [decision](#) to retain the Australian Charities and Not-for-profits Commission (ACNC). The decision followed extensive consultation with the not-for-profit sector on the alternative option of repealing and replacing the ACNC.

### Other financial reporting developments that are relevant to future periods

#### AASB 16 *Leases*

The Australian Accounting Standards Board released AASB 16 *Leases* on 23 February 2016. This follows the publication of IFRS 16 *Leases* by the International Accounting Standards Board on 13 January 2016, completing its long-running project to overhaul lease accounting.

The new Standard requires lessees to account for leases 'on-balance sheet' by recognising a 'right of use' asset and a lease liability. It will affect most companies that report under Australian Accounting Standards and are involved in leasing, and will have a substantial impact on the financial statements of lessees of property and high value equipment. For many other businesses, however, exemptions for short-term leases and leases of low value assets will reduce the impact.

#### Lessee accounting

Subject to the optional accounting simplifications discussed below, a lessee will be required to recognise its leases on the balance sheet. This involves recognising:

- a 'right-of-use' asset; and
- a lease liability

The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is 'reasonably certain'.

In subsequent periods, the right-of-use asset is accounted for similarly to a purchased asset and depreciated or amortised. The lease liability is accounted for similarly to a financial liability using the effective interest method.

#### Optional accounting simplifications

AASB 16 provides important reliefs or exemptions for:

- **short-term leases:** a lease is short-term if it has a lease term of twelve (12) months or less at the commencement date. The use of this exemption is an accounting policy choice that must be made consistently for each class of underlying asset; and
- **low-value asset leases:** the assessment of value is based on the absolute value of the leased asset when new and therefore requires judgement. However, in the Basis for Conclusions which accompanies the Standard, the IASB notes that they had in mind leases of assets with a value when new of around US\$5,000 or less. The use of this exemption is an accounting policy choice that can be made on a lease-by-lease basis.

If these exemptions are used, the accounting is similar to operating lease accounting under the current Standard AASB 117 *Leases*. Lease payments are recognised as an expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

#### Lessor accounting

AASB 16's requirements for lessor accounting are similar to AASB 117's. In particular:

- the distinction between finance and operating leases is retained
- the definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as AASB 117's
- the basic accounting mechanics are also similar, but with some different or more explicit guidance in a few areas. These include variable payments; sub-leases; lease modifications; the treatment of initial direct costs; and lessor disclosures

#### Effective date and transition

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early application is permitted for entities that apply AASB 15 *Revenue from Contracts with Customers* at or before the date of initial application of AASB 16.

In terms of transition, AASB 16 provides lessees with a choice between two (2) broad methods:

- 1 **full retrospective application** – with restatement of comparative information in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- 2 **partial retrospective application** – without restating comparatives. Under this approach the cumulative effect of initially applying AASB 16 is recognised as an adjustment to equity at the date of initial application. If a lessee chooses this method, a number of more specific transition requirements and optional reliefs also apply.

#### Further information

For further information on any of the information included in this TA Alert, please get in touch with your local Grant Thornton Australia contact or a member of the National Audit Support team at [nationalaudit.support@au.gt.com](mailto:nationalaudit.support@au.gt.com).

## Appendix A: Accounting Standards issued but not yet effective

AASB/IASB Standards issued but not yet effective for financial year ending 30 June 2016<sup>1</sup>

Standard/Interpretation	Date of issue	Mandatory effective date (Annual periods beginning on or after ...)	Early adoption permitted <sup>2</sup>
AASB 9 <i>Financial Instruments</i> (2014)	17 December 2014	1 January 2018	Yes (extensive transitional rules apply)
AASB 14 <i>Regulatory Deferral Accounts</i>	17 June 2014	1 January 2016	Yes
AASB 15 <i>Revenue from Contracts with Customers</i>	12 December 2014	1 January 2018	Yes
AASB 16 <i>Leases</i>	23 February 2016	1 January 2019	Yes
AASB 1056 <i>Superannuation Entities</i>	5 June 2014	1 July 2016	Yes
AASB 1057 <i>Application of Australian Accounting Standards</i>	24 July 2015	1 January 2016	Yes
AASB 2014-1 <i>Amendments to Australian Accounting Standards</i> (Part D: Consequential Amendments arising from AASB 14)	17 June 2014	1 January 2016	Yes
AASB 2014-3 <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</i>	11 August 2014	1 January 2016	Yes
AASB 2014-4 <i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i>	11 August 2014	1 January 2016	Yes
AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i>	12 December 2014	1 January 2018	Yes
AASB 2014-6 <i>Amendments to Australian Accounting Standards – Agriculture: Bearer Plants</i>	12 December 2014	1 January 2016	Yes
AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2014)	17 December 2014	1 January 2018	Yes (extensive transitional rules apply)
AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i>	23 December 2014	1 January 2016	Yes

<sup>1</sup> For a comprehensive list of all the pronouncements issued by the AASB / IASB that are not yet effective, refer to our latest TA Alert on this topic on our website (<http://www.grantthornton.com.au/en/insights/technical-publications--ifrs/local-technical-and-financial-reporting-alerts/>).

<sup>2</sup> Entities intending to early adopt these pronouncements should refer to the specific early application provisions in each Standard.



Standard/Interpretation	Date of issue	Mandatory effective date (Annual periods beginning on or after ...)	Early adoption permitted <sup>2</sup>
<i>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	23 December 2014	1 January 2018	Yes
<i>AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle</i>	21 January 2015	1 January 2016	Yes
<i>AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	28 January 2015	1 January 2016	Yes
<i>AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception</i>	30 January 2015	1 January 2016	Yes
<i>AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i>	31 March 2015	1 July 2016	Yes
<i>AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities</i>	8 July 2015	1 July 2016	Yes
<i>AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15</i>	22 October 2015	1 January 2017	Yes
<i>AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs</i>	11 November 2015	1 January 2016	Yes
<i>AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</i>	22 December 2015	1 January 2016	Yes
<i>AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i>	24 February 2016	1 January 2017	Yes
<i>AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	23 March 2016	1 January 2017	Yes