

Technical Accounting Alert

What's New for December 2014?

Introduction

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

- provide information on new and revised Accounting Standards that are mandatorily applicable for the first time to 31 December 2014 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 **28 October 2014**. 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 31 December 2014.

Appendix A of this TA Alert contains a list Australian Accounting Standards - Reduced Disclosure Requirements (RDR) that are effective for the first time to financial years beginning on 1 January 2014.

Appendix B 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).

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 31 December 2014, which are summarised in the table below:

Standard / Interpretation	Mandatory effective date (Annual periods beginning on or after ...)	Applicable for the first time to year ending 31-Dec-14?	Applicable for the first time to half-year ending 31-Dec-14?
AASB 10 <i>Consolidated Financial Statements</i>	1 January 2014*	✓	✓
AASB 11 <i>Joint Arrangements</i>	1 January 2014*	✓	✓
AASB 12 <i>Disclosure of Interests in Other Entities</i>	1 January 2014*	✓	✓
AASB 127 <i>Separate Financial Statements</i> (August 2011)	1 January 2014*	✓	✓
AASB 128 <i>Investments in Associates and Joint Ventures</i> (August 2011)	1 January 2014*	✓	✓
AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i>	1 July 2013	✓	N/A
AASB 2011-4 <i>Amendments to Australian Accounting Standards to Remove Individual Key Management</i>	1 July 2013	✓	N/A

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Standard / Interpretation	Mandatory effective date (Annual periods beginning on or after ...)	Applicable for the first time to year ending 31-Dec-14?	Applicable for the first time to half-year ending 31-Dec-14?
<i>Personnel Disclosure Requirements</i>			
AASB 2011-7 <i>Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards</i>	1 January 2014*	✓	✓
AASB 2012-3 <i>Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014	✓	✓
AASB 2013-3 <i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i>	1 January 2014	✓	✓
AASB 2013-4 <i>Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting</i>	1 January 2014	✓	✓
AASB 2013-5 <i>Amendments to Australian Accounting Standards – Investment Entities</i>	1 January 2014	✓	✓
AASB 2013-7 <i>Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders</i>	1 January 2014	✓	✓
AASB 2013-8 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities</i>	1 January 2014	✓	✓
AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part A: Conceptual Framework)</i>	annual periods ending on or after 20 December 2013	✓	✓
AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B: Materiality)</i>	1 January 2014	✓	✓
AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)</i>	1 July 2014	X	✓
AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119))</i>	1 July 2014	X	✓
AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part C: Materiality)</i>	1 July 2014	X	✓
AASB 2014-2 <i>Amendments to AASB 1053 - Transition to and between Tiers, and related Tier 2 Disclosure Requirements</i>	1 July 2014	X	✓

* Effective date is only relevant to not-for-profit entities. For profit entities were required to apply this standard to annual reporting periods beginning on or after 1 January 2013.

Requirements applying for the first time to annual periods ending 31 December 2014

Although a large number of new and revised standards became effective for the financial year ending 31 December 2014, this TA Alert focuses only on the significant changes. Other Standards are unlikely to have any significant impact on entities.

AASB 10 Consolidated Financial Statements

AASB 10 replaces the existing consolidation requirements in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*.

AASB 10 is based on a new principles-based definition of control and applies to all types of investees, including special purpose entities (which are now called ‘structured entities’). It also provides additional

application guidance on a number of areas where control is difficult to assess. This includes situations involving potential voting rights, principal/agent relationships, control of specified assets within an entity (called 'silos') and circumstances in which voting rights are not the dominant factor in determining control.

AASB 10 does not change how to prepare consolidated financial statements. It contains consolidation procedures, which are carried over from AASB 127 (albeit that the structure and wording have changed).

The changes introduced by AASB 10 require management to exercise significantly more judgement to determine which entities are controlled, compared with the requirements of AASB 127.

AASB 10 is applicable to not-for-profit entities for annual reporting periods beginning on or after 1 January 2014. For profit entities were required to apply this standard to annual reporting periods beginning on or after 1 January 2013.

To assist not-for-profit entities applying the AASB 10, the AASB issued AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* on 31 October 2013. AASB 2013-8 added an appendix to AASB 10 to explain and illustrate how the principles in AASB 10 apply from the perspective of not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective. Similarly, it added an appendix to AASB 12 *Disclosure of Interests in Other Entities*, in relation to structured entities. These appendices do not apply to for-profit entities or affect their application of AASB 10 and AASB 12. AASB 2013-8 is applicable to annual reporting periods beginning on or after 1 January 2014.

For more detailed guidance on AASB 10, refer to our [IFRS News – Special Edition](#) (June 2011).

AASB 11 Joint Arrangements

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and AASB Interpretation 113 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*.

AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. It replaces AASB 131's three categories of 'jointly controlled entities', 'jointly controlled operations' and 'jointly controlled assets' with two new categories (being 'joint operations' and 'joint ventures'), and removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation.

Under AASB 11, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations for liabilities are accounted for by recognising the share of those assets and liabilities. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.

Determining whether an arrangement is a joint operation or a joint venture in accordance with AASB 11 requires consideration of all facts and circumstances (including the structure/legal form of the arrangement and terms agreed by parties to the arrangement). The structure (i.e. legal form) of a joint arrangement is only one element to be considered in classifying a joint arrangement. AASB 11 focuses more on the nature and substance of the rights and obligations arising from the arrangement. This is a significant change from AASB 131 where the legal form of the arrangement was the primary factor in determining the appropriate accounting. Nevertheless, the structure of the joint arrangement is still very important. A joint arrangement that is not structured through a separate vehicle is always classified as a joint operation. If there is a

separate vehicle, the joint arrangement may not necessarily be a joint venture. The contractual terms of the joint arrangement itself, as well as other factors and circumstances, may impact its classification.

AASB 11 is applicable to not-for-profit entities for annual reporting periods beginning on or after 1 January 2014. For profit entities were required to apply this standard to annual reporting periods beginning on or after 1 January 2013.

Refer to our [IFRS News – Special Edition](#) (June 2011) for further details.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 is a comprehensive disclosure standard containing all the disclosure requirements relating to subsidiaries, joint arrangements, associates and unconsolidated structured entities. It combines the existing disclosures in AASB 127, AASB 128 & AASB 131, and introduces a range of new disclosure requirements, including:

- significant judgements and assumptions made in determining whether control, joint control & significant influence exists;
- significant restrictions on investor's ability to access/use subsidiary's assets & liabilities;
- maximum exposure to loss arising from involvement with unconsolidated structured entities; and
- financial or other support provided to unconsolidated structured entities when there is no obligation to do so and any current intentions to provide such support

AASB 12 is applicable to not-for-profit entities for annual reporting periods beginning on or after 1 January 2014. For profit entities were required to apply this standard to annual reporting periods beginning on or after 1 January 2013.

Refer to our [IFRS News – Special Edition](#) (June 2011) for further details.

AASB 1053 Application of Tiers of Australian Accounting Standards

AASB 1053 (along with AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) establishes a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and it not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is effective for annual periods beginning on or after 1 July 2013.

For further information on reduced disclosure requirements refer to [TA Alert 2010-15](#).

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

The Standard amends AASB 124 *Related Party Disclosures* to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards.

In mid-2013, the Australian government passed *Corporations and Related Legislation Amendment Regulation 2013 (No.1)* and *Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No. 1)* to insert these disclosures, with minor changes, into *Corporations Regulations 2001*. These disclosures are required to be included in remuneration reports for financial years commencing on or after 1 July 2013.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 *Fair Value Measurement*, the IASB decided to amend IAS 36 *Impairment of Assets* to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 *Impairment of Assets* and is applicable to annual reporting periods beginning on or after 1 January 2014.

AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities

The amendments in AASB 2013-5 provide an exception to consolidation to investment entities and require them to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 9 *Financial Instruments* (or AASB 139 *Financial Instruments: Recognition and Measurement* where AASB 9 has not yet been adopted). The amendments also introduce new disclosure requirements for investment entities that have subsidiaries.

These amendments apply to investment entities, whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. Examples of entities which might qualify as investment entities would include Australian superannuation entities, listed investment companies, pooled investment trusts and Federal, State and Territory fund management authorities.

AASB 2013-5 is applicable to annual reporting periods beginning on or after 1 January 2014.

AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards *Annual Improvements to IFRSs 2010-2012 Cycle* and *Annual Improvements to IFRSs 2011-2013 Cycle*.

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2010-2012 Cycle*:

- clarify that the definition of a ‘related party’ includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and
- amend AASB 8 *Operating Segments* to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2011-2013 Cycle* clarify that an entity should assess whether an acquired property is an investment property under AASB 140 *Investment Property* and perform a separate assessment under AASB 3 *Business Combinations* to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014.

AASB 2014-2 Amendments to AASB 1053 - Transition to and between Tiers, and related Tier 2 Disclosure Requirements

The Standard makes amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards* to:

- clarify that AASB 1053 relates only to general purpose financial statements;
- make AASB 1053 consistent with the availability of the AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* option in AASB 1 *First-time Adoption of Australian Accounting Standards*;
- clarify certain circumstances in which an entity applying Tier 2 reporting requirements can apply the AASB 108 option in AASB 1;
- permit an entity applying Tier 2 reporting requirements for the first time to do so directly using the requirements in AASB 108 (rather than applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements; and
- specify certain disclosure requirements when an entity resumes the application of Tier 2 reporting requirements.

AASB 2014-2 is applicable to annual reporting periods beginning on or after 1 July 2014.

Other financial reporting developments that are relevant to annual periods ending 31 December 2014

ASIC focus areas for 31 December 2014

Australian Securities and Investments Commission (ASIC) is yet to announce its focus areas for 31 December 2014 financial reports. However, we expect them to be similar to ASIC focus areas for 30 June 2014 financial reports, being:

- impairment testing and asset values
- amortisation of intangible assets
- off-balance sheet arrangements and new standards
- revenue recognition
- expense deferral
- tax accounting
- estimates and accounting policy judgements

See [TA Alert 2014-05](#) for further information. When ASIC publishes its focus areas for 31 December 2014 financial reports, we will issue a new TA Alert which will be located under:

http://www.grantthornton.com.au/Publications/Tools-and-resources/Technical-publications/Local_Alerts.asp.

Other financial reporting developments that are relevant to future periods

AASB 1056 Superannuation Entities

AASB 1056 replaces the existing requirements in AAS 25, and applies to large superannuation entities regulated by the Australian Prudential Regulation Authority (APRA) and to public sector superannuation entities.

This Standard is expected to result in significant changes to the recognition, measurement, presentation and disclosures relating to superannuation entity financial statements. Some of the key changes include:

- greater level of integration between AASB 1056 and other Australian Accounting Standards
- a revised definition of a superannuation entity
- revised content/presentation of financial statements (e.g. the introduction of a statement of changes in member benefits and a statement of changes in equity/reserves)
- use of fair value rather than net market value for measuring assets and liabilities (subject to certain exceptions)
- revised member liability recognition and measurement requirements
- new requirements regarding employer-sponsor receivables
- new/revised disclosure requirements

For further information, refer to [TA Alert 2014-07](#).

IFRS 15 Revenue from Contracts with Customers

IFRS 15:

- replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related Interpretations
- establishes a new control-based revenue recognition model

- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

In the Australian context, the AASB is expected to release the equivalent Australian Standard (AASB 15 *Revenue from Contracts with Customers*) by the end of 2014. The AASB is also expected to issue a new Exposure Draft (ED) on income from transactions of not-for-profit (NFP) entities in quarter 1 of 2015, proposing to replace the income recognition requirements of AASB 1004 *Contributions*.

For further information, refer to [TA Alert 2014-04](#) and [IFRS Newsletter \(June 2014\) – Special Edition on Revenue](#).

IFRS 9: Financial Instruments (2014)

On 24 July 2014, the International Accounting Standards Board (IASB) published IFRS 9 *Financial Instruments* (2014) which marks the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39).

IFRS 9 (2014):

- adds requirements dealing with expected credit losses (impairment);
- amends the Standard's classification and measurement requirements by adding a new measurement category of fair value through other comprehensive income; and
- introduces a new mandatory effective date of accounting periods beginning on or after 1 January 2018.

In the Australian context, the AASB has already amended the effective date of AASB 9 to '1 January 2018' through its Amending Standard AASB 2014-1 *Amendments to Australian Accounting Standards*. It is expected that the AASB will issue the remaining amendments arising from IFRS 9 (2014) by the end of 2014.

For further information, refer to [TA Alert 2014-09](#) and [IFRS News \(September 2014\) – Special Edition on IFRS 9: Financial Instruments](#).

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 nationalaudit.support@au.gt.com

Appendix A: RDR Standards Effective for the First Time

RDR Standards effective for the first time to annual reporting periods beginning on 1 January 2014

Standard	Date of Issue	Effective date (Annual periods beginning on or after ...)
AASB 2010-2 <i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	30 June 2010	1 July 2013
AASB 2011-2 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements</i>	11 May 2011	1 July 2013
AASB 2011-6 <i>Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements</i>	20 July 2011	1 July 2013
AASB 2011-11 <i>Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements</i>	5 September 2011	1 July 2013
AASB 2012-1 <i>Amendments to Australian Accounting Standards - Fair Value Measurement - Reduced Disclosure Requirements</i>	21 March 2012	1 July 2013
AASB 2012-7 <i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	10 September 2012	1 July 2013
AASB 2012-11 <i>Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments</i>	18 December 2012	1 July 2013
AASB 2013-6 <i>Amendments to AASB 136 arising from Reduced Disclosure Requirements</i>	27 September 2013	1 January 2014

Appendix B: Accounting Standards Issued But Not Yet Effective

AASB/IASB Standards issued but not yet effective⁺

Standard/Interpretation	Date of Issue	Mandatory effective date (Annual periods beginning on or after ...)	Early adoption permitted? [#]
AASB 9 <i>Financial Instruments</i>	6 December 2010	1 January 2018	Yes (extensive transitional rules apply)
AASB 1055 <i>Budgetary Reporting</i>	5 March 2013	1 July 2014	Yes
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	6 December 2010	1 January 2015	Yes (extensive transitional rules apply).
AASB 2013-1 <i>Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements</i>	5 March 2013	1 July 2014	Yes (but must also apply AASB 1055 at the same time. Entities can only adopt for annual periods beginning on or after 1 January 2009).
AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C: Financial Instruments)</i>	20 December 2013	1 January 2015	Yes
AASB 1056 <i>Superannuation Entities</i>	5 June 2014	1 July 2016	Yes
AASB 14 <i>Regulatory Deferral Accounts</i>	17 June 2014	1 January 2016	Yes
AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14)</i>	17 June 2014	January 2016	Yes
AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part E: Financial Instruments)</i>	17 June 2014	1 January 2015	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
IFRS 15 <i>Revenue from Contracts with Customers</i>	18 May 2014	1 January 2017	Yes
<i>Equity Method in Separate Financial Statements (Amendments to IAS 27)</i>	12 August 2014	1 January 2016	Yes

⁺ 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/Publications/Tools-and-resources/Technical-publications/Local_Alerts.asp).

[#] Entities intending to early adopt these pronouncements should refer to the specific early application provisions in each Standard.