



# Technical Accounting Alert

## Amendments to AASB 101 to address disclosure overload in financial statements

### Introduction

On 2 February 2015, the Australian Accounting Standards Board (AASB) issued AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* which incorporates the International Accounting Standards Board (IASB) *Disclosure Initiative – Amendments to IAS 1 Presentation of Financial Statements* published on 18 December 2014.

The Amendments are part of the IASB's Disclosure Initiative project. The Disclosure Initiative itself is in part a reaction to the growing clamour over disclosure overload in financial statements. It consists of a number of projects, both short and medium-term, and ongoing activities that explore how presentation and disclosure principles and requirements in existing Standards can be improved.

### The Amendments

The Amendments clarify that entities should not be disclosing immaterial information and that the presentation of information in notes can and should be tailored to provide investors and other users with the clearest story of an entity's financial performance and financial position. They encourage companies to apply professional judgement in determining what information to disclose in their financial statements. They also clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The Amendments:

- clarify the materiality requirements in AASB 101 *Presentation of Financial Statements*, 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 or 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.

All TA Alerts can be found on the National Intranet (<http://gtassist.au.gt.local/>) under Professional Services/Audit & Assurance (for Grant Thornton staff only) and the Grant Thornton website ([www.grantthornton.com.au](http://www.grantthornton.com.au)) under Publications & News/Technical publications & IFRS resources/Tools and resources/Local technical and financial reporting alerts, and Technical Resources. This Alert is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting or auditing advice. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at accounting and audit decisions that comply with matters addressed in this Alert. Grant Thornton is a trademark owned by Grant Thornton International Ltd (UK) and used under licence by independent firms and entities throughout the world. Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

It is worth noting that these Amendments are aimed at clarifying the existing requirements in AASB 101. They provide additional guidance to assist entities to apply judgement when meeting the presentation and disclosure requirements in Australian Accounting Standards. They do not affect recognition and measurement, and should not result in the reassessment of the judgements about presentation and disclosure made in periods prior to the application of these Amendments.

### **Emphasis on professional judgement**

How the concept of materiality is applied in practice has also been the subject of some debate in recent years and many consider this to be the major cause of disclosure overload in financial statements. Considering the lack of existing IFRS guidance on applying materiality and the AASB's recent withdrawal of its domestic standard dealing with materiality (AASB 1031 *Materiality*), professional judgement regarding the inclusion/exclusion of items based on materiality has a greater role to play in practice. On a positive note, the IASB has acknowledged this issue and has initiated a research project with the aim of coming up with a Practice Statement to help preparers, auditors and regulators use judgement when applying the concept of materiality. This Practice Statement is currently scheduled to be released by the IASB in mid-2015.

### **Effective date and transition**

The Amendments are applicable to annual periods beginning on or after 1 January 2016, with early application permitted.

#### **Grant Thornton Comment**

The size of financial statements has grown significantly in recent years as disclosures have been added in the quest for greater transparency. Unfortunately this has led to concerns that the increased size of the notes to the financial statements has created a major burden for preparers, while failing to serve their intended purpose which is to help users understand the numbers in the financial statements.

We therefore fully support the Disclosure Initiative and its objectives. These Amendments will achieve limited, short-term improvements and are a good start to this larger initiative.

### **Further information**

For further information on any of the information included in this Technical Accounting Alert, please contact 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).