

Technical Accounting Alert

What's New for December 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 31 December 2010 year ends.

Note that this alert does not include information about other pronouncements which are available for early adoption at 31 December 2010 but are not mandatory; for a detailed list of these, please refer to [TA Alert 2010-55](#).

Overview

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

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

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

The revised business combinations and consolidations standards are effective for 31 December 2010 year ends for acquisitions made after 1 January 2010.

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 31 December 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.

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]

The amendment to AASB 2 clarifies that an entity that receives goods or services from its suppliers (including employees) must apply AASB 2 even where it itself has no obligation to make the required share-based cash payments.

See [TA Alert 2009-17](#) for more information.

AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139]

The following amendments aimed to clarify the application of some of AASB 139's requirements on designation of a risk or a portion of cash flows for hedge accounting purposes.

Designation of one-sided risks

A new paragraph was introduced in the Application Guidance to clarify that AASB 139 permits a designation based either on increases or decreases in cash flows or fair value of a hedged item above or below a specified price or variable (a one-sided risk). It also noted that a one-sided risk does not include a 'time value' component.

Designation of portions of cash flows of a financial instrument

New paragraphs were inserted in the Application Guidance to clarify designation based on a portion of the cash flows are permitted only when the:

- designated risks and portions are separately identifiable components of the instrument; and
- changes in the cash flows or fair value of the entire instrument arising from those risks and portions are reliably measurable.

Hedge effectiveness when hedging a one-sided risk with a purchased option

New paragraphs were inserted in the Application Guidance to explain the interaction between the choice of excluding the time value of an option from the hedge accounting relationship under AASB 139.74(a) and the effectiveness of the hedge relationship.

See [TA Alert 2008-15](#) for more information.

AASB Interpretation 17 Distributions of Non-cash Assets to Owners

Interpretation 17 applies to distributions of non-cash assets by an entity to its owners, and to distributions that give owners a choice of receiving either non-cash assets or a cash alternative. The Interpretation states that:-

- a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- to measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed;
- where an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity estimates the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative; and
- to recognise in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable upon settlement of the dividend payable.

See [TA Alert 2010-50](#) for more information.

AASB Interpretation 18 Transfers of Assets from Customers

Interpretation 18 applies to the recipient of a transfer of property, plant and equipment from a customer where the item received must be used to connect the customer to a network and/or provide ongoing access to a supply of goods or services. The main issues addressed include:

(a) Whether an asset should be recognised by the recipient (and, if so, the amount to be recognised)

The Interpretation requires that the recipient recognises an asset in respect of the transferred item if that item meets the definition of an asset as set out in the Framework (primarily that the recipient controls the item). If an asset is recognised, it is recorded at fair value on initial recognition.

(b) Whether these transactions result in revenue for the recipient and, if so, the period over which revenue is recorded.

In summary, the appropriate pattern of revenue recognition depends on the service or services that the recipient has agreed to provide to the customer. These might be:

- *a connection service* - recognise revenue when the connection is delivered;
- *ongoing access to a supply of goods and services* - recognise revenue over the term specified in the agreement (or the useful life of the transferred asset if the agreement does not specify a term);
- *both services* - allocate revenue between the two service components then apply the revenue recognition criteria to each component.

Cash contributions that are within the scope of the Interpretation are accounted for as follows:

- the asset constructed by the developer is recorded at cost in accordance with AASB 116;
- the cash received is recognised as revenue in a manner consistent with the above guidance and AASB 118.

See [TA Alert 2010-52](#) for more information.

Annual Improvements 2009 [AASB 2009-04 and 2009-05]

The IASB has published Improvements to IFRSs ('2009 Improvements') which makes minor amendments to a number of International Financial Reporting Standards (IFRSs) issued in Australia as AASB 2009-4 and AASB 2009-5. For details in relation to these changes and which Australian Accounting Standards are affected refer to [TA Alert 2009-16](#).

Reduced Disclosure Regime

In June 2010 the AASB issued new standards (AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) on a reduced disclosure regime for non-publicly accountable for-profit private sector entities and certain entities in the not-for profit private sector and public sector. These were available for early adoption for 30 June 2010 financial statements.

The new standards introduce a second tier of reporting requirements into the Australian financial reporting framework to substantially reduce the burden of financial reporting for certain entities in both the private and public sectors in preparing their general purpose financial statements. It introduces a regime which requires disclosures that are substantially reduced when compared with those required under the full IFRSs as adopted in Australia.

The reduced disclosure regime does not change the current AASB policy of transaction neutrality, which is designed to ensure that all Australian reporting entities apply the same bases of recognition and measurement.

With the introduction of the reduced disclosure regime, the Australian Accounting Standards now consist of two tiers of reporting requirements that apply to general purpose financial statements:

1. Tier 1: Full IFRSs as adopted in Australia; and
2. Tier 2: The reduced disclosure regime.

See [TA Alert 2010 – 24](#) and [2010-15](#) for further information.

Corporate Reporting Reform Bill

In June 2010 the Government approved the Corporate Reporting Reform Act which aims to cut red-tape and improve Australia's corporate reporting framework. The financial statement relief applies from 30 June 2010 financial statements.

The key reforms include:

- Establishing a three tiered differential reporting regime for companies limited by guarantee under the Corporations Act 2001:
 - Revenues <\$250K and no deductible gift status – no Corporations Act accounts/audit requirements
 - Revenue <\$1M – streamlined directors report and annual report to shareholders, option of an audit review by any practicing certificate holder rather than an RCA audit
 - Revenues >\$1M – streamlined directors report and annual report to shareholders;
- Allowing companies to disclose summary parent-entity financial information rather than full parent-entity statements;
- Replacing the 'profits' test for paying dividends with a more flexible solvency type test (see [TA Alert 2010-37](#) for more information);
- Providing greater flexibility for companies to change their year-end date;
- Expanding the range of entities that are required to comply with section 299A of the Corporations Act;

- Refining the statement of IFRS compliance in the directors' declaration; and
- Clarifying the circumstances in which a company can cancel its share capital.

See [TA Alert 2010-07](#) for further information..

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 31 December 2010 year ends

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

Title	Full title of Standard or interpretation	Effective for accounting periods beginning on or after
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
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 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	1 July 2009
AASB 2009-4 and 2009-5	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 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	1 January 2010
AASB 2009-9	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards	1 January 2010