

IFRS Accounting Standards Issued but not yet Effective

Companies that disclose unreserved compliance with International Financial Reporting Standards (IFRS) in their General Purpose financial reports will need to consider that accounting standards may have been issued or amended by the

International Accounting Standards Board (IASB), but may not yet have been approved for issue by the Australian Accounting Standards Board (AASB). As companies prepare their financial reports for 30 June 2008, there will be a need to consider disclosure in the financial report of IFRSs that have been amended or issued but that are not yet effective.

There are two IFRS documents issued by the IASB but not yet issued by the AASB which together make amendments to a number of existing standards and will therefore have disclosure impact on the June 2008 financial reports. The amendments are effective for financial periods commencing on or after either 1 January 2009 or 1 July 2009, but are available for early adoption:

▶ **Improvements to IFRSs (May 2008)**

▶ **IFRS1 & IAS 27 Amendments to International Financial Reporting Standards (May 2008)**

- IFRS1: First Time Adoption of International Financial Reporting Standards
- IAS 27: Consolidated and Separate Financial Statements

Cost of an investment in a subsidiary, jointly controlled entity or associate.

The June 2008 Corporate Edge explained what is required to be disclosed under AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors, when a standard is issued but is not yet effective. The equivalent IFRS, IAS 8, has the same disclosure requirements.

[Subsequent to preparation of this newsletter the AASB issued AASB 2008-5 and AASB 2008-6 on 1 August 2008, to take into account the amendments under the Improvement to IFRSs document. The amendments, summarised under Appendix 1, therefore also affect the equivalent AASB.]

Improvements to IFRSs

Appendix 1 to this newsletter provides a summary table of the IFRSs that have been amended under the IFRS Improvement document and the key impact of each.

Part I contains amendments that result in accounting changes for presentation, recognition and measurement purposes.

Part II contains amendments that are terminology or editorial changes only, which the IASB expects to have no or minimal effect on accounting.

Some of the highlights from the Improvements to IFRSs document are detailed below:

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IAS 1 – Presentation of Financial Statements

Regardless of maturity dates, a financial liability held for trading should be presented as current.

IFRS 5

All of the assets and liabilities in a subsidiary that is due for disposal, should form part of the disposal group and be transferred to current, not only that portion due for disposal. This is regardless of whether the parent entity will retain a controlling interest or not.

IAS 16 – Property Plant and Equipment

A company that ordinarily sells property plant and equipment that is used for rental by the entity will be required to account for such property as inventory when the decision is made to dispose of it and account for the sale in the same way that the sale of inventory is accounted for.

On disposal, the gross proceeds from the sale are recognised as revenue and the carrying value of the property held as inventory is expensed as part of cost of sales, giving rise to a gross profit or loss.

Under the existing standard, disposal of such property might be accounted for in the same way as disposal of other capital assets, by netting the proceeds against the carrying amount and accounting for the net amount as other income or loss on disposal.

IAS 28 – Investment in Associates

An investor should not allocate an impairment loss to any asset that forms part of the carrying amount of the investment in the associate, because the investment is the only asset that the investor controls and recognises.

IAS 38 – Intangible Assets

A prepayment may be recognised by an entity only up to the point that an entity has received the related goods or services in respect of advertising and promotional activities that enhance or create internally generated brands or customer relationships, which in turn generate revenues.

An entity recognises an expense when it has gained a right to access the related goods or the service is delivered in accordance with a contract. The expense cannot be deferred until such time as the entity delivers the promotion or advertisement to its customer.

IAS 40 – Investment Property

Property under construction is now removed from the scope of IAS 16 – Property Plant and Equipment and included under the scope of IAS 40 – Investment Property, and may therefore be accounted for at fair value if this fair value can be reliably determined.

Under current IAS 40, if an entity has elected the fair value model, all investment property must be carried at fair value.

Under IAS 40 the cost model remains an option for property under construction, if fair value is not reliably determinable.

IFRS1 & IAS 27 Amendments to International Financial Reporting Standards – (May 2008)

- ▶ IFRS1: First Time Adoption of International Financial Reporting Standards
- ▶ IAS 27: Consolidated and Separate Financial Statements

Cost of an investment in a subsidiary, jointly controlled entity or associate

The table below summarises key amendments and impacts arising from this amending standard. The standard is effective for financial reporting periods commencing 1 January 2009 with early adoption permitted. AASB 127 (38 B) & (38C) have prospective application, but can be applied retrospectively. Consequential amendments are made to amend or insert IAS 118 (32) & (38), IAS 21 (49), and IAS 36 (140 (d)).

IAS	Paragraph	Amendment	Key Impact
IFRS 1	13, 23B, 25A, 34C	To allow an entity on transition to IFRS the option of stating an investment in a subsidiary, associate or joint controlled entity at: <ul style="list-style-type: none"> ▶ Cost ▶ Deemed cost, being: <ul style="list-style-type: none"> - Fair value under IAS 39 - Previous GAAP carrying amount. 	This amendment will not have impact on Australian entities as they have already transitioned to IFRS. Could have impact on foreign subsidiaries of Australian Entities that have not yet transitioned to IFRS.
27	4	Deleted	The deletion removes the definition of the cost method from IAS 27, which will mean that all dividends received from a subsidiary, jointly controlled entity or associate out of pre-acquisition income will be recorded as income, instead of being credited to investment as in the past.
	38 A	Inserted	A dividend from a subsidiary, jointly controlled entity or associate is recognised in profit or loss when the right to receive the dividend is established.
	38 B	Inserted	Under specified circumstances, in a group reorganisation, a newly formed parent entity accounts for its investment in the original parent at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.
	38 C	Inserted	An entity that is not a parent might establish a new entity as its parent under the same specified criteria under paragraph 38 B.
36	12h	Inserted	Recognition of a dividend received by the parent entity, is an impairment indicator in specified circumstances.

AASB Releases Amended AASB 124 Effective for 30 June 2008 Reporting

Subsequent to the publication of Corporate Edge in June 2008, the AASB released AASB 2008-4, Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities on 6 June 2008, to amend AASB 124 Related Party Disclosures.

The amendment allows all listed and unlisted public companies that are disclosing entities to only disclose the detailed remuneration of key management personnel in their directors' report, and not duplicate the information in their financial report. For listed companies, this relief was previously contained in regulation 2M.6.04, which has been repealed. The relief is extended to disclosing entities that are unlisted companies.

The revised AASB 124 exempts disclosing entities from complying with paragraphs Aus 25.2- Aus 25.6, Aus 25.7.1 and Aus 25.7.2 in their financial reports as long as this information, duplicated in Section 300A of the Corporations Act 2001 and Regulation 2M.3.03, is disclosed in the directors' report as required by this section.

The requirements of paragraphs Aus 25.7 and Aus 25.7.3 to Aus 25.9.3 remain applicable to all disclosing entities for the time being, and similar disclosure relief is not available for these paragraphs.

AASB 2007-4 is applicable to annual reporting periods ending on or after 30 June 2008, provided that the reporting period does not begin before 30 June 2007.

Should you require assistance or additional information, please contact your Engagement Partner or:

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Disclaimer

The material contained in this newsletter is based on current Australian Accounting Standards including Australian Interpretations, and International Financial Reporting Standards and Interpretations, and is in the nature of general communication and information only. The briefing neither purports nor is intended to be advice on any particular matter, highlights only key matters, and may not provide a complete summary of all potential impacts on financial reporting for financial reporting periods ended on 30 June 2008.

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Appendix 1: A Summary of IFRS Improvements

Part I – Amendments That Affect Presentation, Recognition & Measurement

	IFRS	Subject of Amendment	Effective Date	Key Impacts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Plan to sell the controlling interest in a subsidiary	Annual periods beginning on or after 1 July 2009 (to be consistent with the effective date of <i>IAS 27 Consolidated and Separate Financial Statements</i>)	<p>Commitment to a plan involving the loss of control of a subsidiary triggers classification of the controlling interest in the subsidiary as held for sale under <i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i> provided the criteria for classification as held for sale have been met.</p> <p>All the subsidiaries assets and liabilities should be classified as held for sale, not only the portion of the interest disposed of regardless of whether or not a non-controlling interest is retained.</p>
IAS 1	Presentation of Financial Statements	Current/non-current classification of derivatives	Annual periods beginning on or after 1 January 2009	<p>The IASB reaffirmed:</p> <ul style="list-style-type: none"> a) if a financial liability is <u>primarily</u> held for trading purposes that it should be presented as current regardless of maturity date; b) a financial liability that is not held for trading should be presented as current or non-current based on its settlement date; and c) a similar inconsistency on current assets.
IAS 16	Property, Plant and Equipment	Recoverable amount	Annual periods beginning on or after 1 January 2009	Recoverable amount is defined as the higher of an asset's fair value less costs to sell and its value in use and not net selling price less costs to sell.
		Sale of assets held for rental	Apply related amendments to <i>IAS 7 Statement of Cash Flows</i>	An entity that ordinarily sells items of property, plant and equipment held for rental transfers these assets to inventories when they cease to be rented and records the proceeds as revenue in accordance with <i>IAS 18 Revenue</i> .

Amendments That Affect Presentation, Recognition & Measurement

	IFRS	Subject of Amendment	Effective Date	Key Impacts
				Cash receipts and payments relating to the property, plant and equipment transferred to inventories is treated as operating activities.
IAS 19	Employee Benefits	Curtailments and negative past service cost	Annual periods beginning on or after 1 January 2009. Amendments to paragraphs 97,98,111 and 111A should be applied to benefits that occur on or after 1 January 2009	If a change to a benefit plan affects the extent to which future salary increases after the reporting date are linked to benefits payable for past service, all of the effect of the change on the present value should be treated as curtailment, not a negative past service cost. The amendment is applied prospectively.
		Plan administration costs		All plan administration costs (not just investment administration costs) should be deducted in determining the return on plan assets to the extent that such has not been reflected in the measurement of the defined benefit obligation. The amendment is applied retrospectively.
		Replacement of term 'fall due'		The critical factor in distinguishing between long-term and short-term benefits is the timing of the expected settlements. The definition of short-term employee benefits and other long-term employee benefits is therefore amended from "do not fall due wholly" to "that are due to be settled". The amendment is applied retrospectively.
		Guidance on contingent liabilities		Paragraph 32B has been amended to require disclosure of some contingent liabilities and not recognition and disclosure of certain contingent liabilities.

Amendments That Affect Presentation, Recognition & Measurement

	IFRS	Subject of Amendment	Effective Date	Key Impacts
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Government loans with a below-market rate of interest	Prospective application of loans received in periods beginning on or after 1 January 2009	<p>The benefit of the reduced interest on loans received from a government that have below-market rates of interest is measured using <i>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance</i> as the difference between the initial carrying value of the loan determined at fair value in accordance with <i>IAS 39 Financial Instruments: Recognition and Measurement</i> and the proceeds received.</p> <p>The amendment is applied prospectively.</p>
IAS 23	Borrowing Costs	Components of borrowing costs	Annual periods beginning on or after 1 January 2009	The basis for conclusions on <i>IAS 23 Borrowing Costs</i> is updated to refer to guidance in <i>IAS 39 Financial Instruments: Recognition and Measurement</i> when components of interest expense is calculated using the effective interest rate method.
IAS 27	Consolidated and Separate Financial Statements	Measurement of subsidiary held for sale in separate financial statements	Prospective application from the date at which IFRS 5 was first applied for annual periods beginning on or after 1 January 2009	<p>Categories of investments in subsidiaries, jointly controlled entities and associates measured in accordance with <i>IAS 39 Financial Instruments: Recognition and Measurement</i> do not change when they are held for sale (or included in a disposal group that is held for sale).</p> <p>Categories of investments measured at cost and held for sale (or included in a disposal group that is held for sale) is accounted for in accordance with <i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>.</p>
IAS 28	Investments in Associates	Required disclosures when investments in associates are accounted for at fair value through profit or loss	<p>Annual periods beginning on or after 1 January 2009</p> <p>Prospective application is permitted</p>	Specific disclosures as per paragraph 37(f) are required for investments initially recognised at fair value through profit or loss or classified as held for trading and measured at fair value in accordance with <i>IAS 39 Financial Instruments: Recognition and Measurement</i> .

Amendments That Affect Presentation, Recognition & Measurement

	IFRS	Subject of Amendment	Effective Date	Key Impacts
		Impairment of investment in associate		<p>The IASB decided that an investor should not allocate an impairment loss to any asset that forms part of the carrying amount of the investment in the associate because the investment is the only asset that the investor controls and recognises.</p> <p>The IASB also decided that any reversal of this impairment loss should be recognised as an adjustment to the investment in the associate to the extent that the recoverable amount of the investment increases. This requirement is consistent with <i>IAS 36 Impairment of Assets</i>, which permits the reversal of impairment losses for assets other than goodwill.</p>
IAS 31	Interests in Joint Ventures	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss	Annual periods beginning on or after 1 January 2009. Prospective application is permitted	Specific disclosures as per paragraphs 55 and 56 are required for investments initially recognised at fair value through profit or loss or classified as held for trading and measured at fair value in accordance with <i>IAS 39 Financial Instruments: Recognition and Measurement</i> .
IAS 29	Financial Reporting in Hyperinflationary Economies	Description of measurement basis in financial statements	Annual periods beginning on or after 1 January 2009	The Standard did not reflect the fact that a number of assets and liabilities may or must be measured on the basis of fair value rather than historical value. Therefore, the IASB included examples rather than a definitive list of such items.
IAS 36	Impairment of Assets	Disclosure of estimates used to determine recoverable amount	Annual periods beginning on or after 1 January 2009	The same disclosures are required for fair value less costs to sell and value in use when discounted cash flows are used to estimate recoverable amount.
IAS 38	Intangible Assets	Advertising and promotional activities	Annual periods beginning on or after 1 January 2009	Advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets.

Amendments That Affect Presentation, Recognition & Measurement

	IFRS	Subject of Amendment	Effective Date	Key Impacts
		Unit of production method of amortisation		<p>A prepayment may be recognised by an entity only until that entity has received the related goods or services. An entity recognises an expense when it has gained a right to access the related goods or the service is delivered in accordance with a contract.</p> <p>The IASB deleted the last sentence of paragraph 38 referring to the unit of production method rarely being a persuasive form of evidence in comparison to the straight line method.</p>
IAS 39	Financial Instruments: Recognition and Measurement	Reclassification of derivatives into or out of the classification of at fair value through profit or loss	Annual periods beginning on or after 1 January 2009	<p>An entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.</p> <p>The following changes in circumstances are not reclassifications:</p> <ul style="list-style-type: none"> a) a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge; b) a derivative that becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and c) financial assets that are reclassified when an insurance company changes its accounting policies in accordance with paragraph 45 of <i>IFRS 4 Insurance Contracts</i>.
		Designating and documenting hedges at the segment level		For hedge accounting purposes, only instruments that involve a party external to the reporting entity can be designated as hedging instruments. The IASB removed references to the designation at segment level from the definition of a party external to the reporting entity.
		Applicable effective interest rate on cessation of fair value hedge accounting		A revised effective interest rate is calculated in accordance with paragraph 92 and is applied when remeasuring the instrument's carrying amount on the cessation of fair value hedge accounting.

Amendments That Affect Presentation, Recognition & Measurement

	IFRS	Subject of Amendment	Effective Date	Key Impacts
IAS 40	Investment Property	Property under construction or development for future use as investment property	Prospective application for annual periods beginning on or after 1 January 2009	<p>Investment property under construction is included within the scope of the Standard, and the fair value model can consequently be applied to investment property under construction.</p> <p>The cost model is applicable if fair value cannot be determined reliably.</p>
IAS 41	Agriculture	Discount rate for fair value calculations	Prospective application for annual periods beginning on or after 1 January 2009	<p>Reference to a pre-tax discount rate in paragraph 20 was removed as a fair value measurement would take into account future income taxes that a market participant purchasing the asset (or assuming the liability) would be expected to pay (or to receive), without regard to an entity's specific tax situation.</p>
		Additional biological transformation		<p>Taking into account the cash flows resulting from additional biological transformation when estimating the fair value of a biological asset is no longer prohibited.</p> <p>In addition, the IASB amended the Standard to refer to biological transformation or harvest when applicable to make clear that harvest changes the condition of an asset.</p>

Part II – Terminology and Editorial Changes

IFRS	Subject of amendment	
IFRS 7 Financial Instruments: Disclosures	Presentation of finance costs	Total interest income is removed as a component of finance costs to remove an inconsistency with paragraph 32 of <i>IAS 1 Presentation of Financial Statements</i> , which precludes the offsetting of income and expenses (except when required or permitted by an IFRS).
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Status of implementation guidance	Only guidance that is identified as an integral part of IFRSs is mandatory.
IAS 10 Events after the Reporting Period	Dividends declared after the end of the reporting period	If dividends are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with <i>IAS 1 Presentation of Financial Statements</i> .
IAS 18 Revenue	Costs of originating a loan	The IASB replaced the term 'direct costs' with 'transaction costs'. Transaction costs are defined in paragraph 9 of <i>IAS 39 Financial Instruments: Recognition and Measurement</i> as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Consistency of terminology with other IFRSs	<p>The IASB amended terminology used in this Standard to be consistent with other IFRSs as follows:</p> <ul style="list-style-type: none"> a) 'taxable income' was amended to 'taxable profit or tax loss', b) 'recognised as income/expense' was amended to 'recognised in profit or loss', c) 'credited directly to shareholders' interests/equity' was amended to 'recognised outside profit or loss'; and d) 'revision to an accounting estimate' was amended to 'change in accounting estimate'.
IAS 29 Financial reporting in Hyperinflationary Economies	Consistency of terminology with other IFRSs	<p>The IASB changed terms used in <i>IAS 29 Financial Reporting in Hyperinflationary Economies</i> to be consistent with other IFRSs as follows:</p> <ul style="list-style-type: none"> a) 'market value' was amended to 'fair value', and b) 'Results of operations' and 'net income' were amended to 'profit or loss'.

Part II – Terminology and Editorial Changes

IFRS	Subject of amendment	
IAS 34 Interim Financial Reporting	Earnings per share disclosures in interim financial reports	Paragraph 11 was amended to clarify that an entity shall present basic and diluted earnings per share for that period when the entity is within the scope of <i>IAS 33 Earnings per Share</i> .
IAS 40 Investment Property	Consistency of terminology with IAS 8	The IASB conformed the terminology used in paragraph 31 to the terminology used in IAS 8 by Improvements to IFRSs issued in May 2008.
	Investment property held under lease	The IASB amended paragraph 50(d) to clarify that the carrying amount of investment property is determined using the fair value model and requires any recognised lease liability to be added back if the valuation obtained for a property is net of all payments expected to be made.
IAS 41 Agriculture	Examples of agriculture produce and products	The table in paragraph 4 shows logs under agricultural products. Logs have now been moved to products that are the result of processing after harvest.
	Point-of-sale costs	The terms 'point-of-sale costs' and 'estimated point-of-sale costs' is replaced with 'costs to sell' to make <i>IAS 41 Agriculture</i> consistent with <i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i> and <i>IAS 36 Impairment of Assets</i> . Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.