

Considerations for Financial Reporting: July - November 2007 AASB Releases

New and Revised Accounting Standards

AASB 101 – Financial Statement Presentation (revised) and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

As highlighted in the October issue of Corporate Edge - IFRS, toward 2009 the AASB issued a revised AASB 101 on 6 September 2007.

The AASB has decided that Australian issuers will mandatorily be required to refer to a "Statement of Financial Performance" and to a "Statement of Financial Position" as the terms used in the standard and to use the term "financial report" and not "financial statement."

This standard is effective for annual reporting periods beginning on or after 1 January 2009 with early adoption permitted.

AASB 1048 – Interpretation and Application of Standards (revised)

The AASB issued a revised AASB 1048 in September 2007 to add the 5 revised and new interpretations issued since March 2007, including Revised Interpretations 12, 13 and 14 referred to in this newsletter, as well as Revised Interpretation 1 – "Changes in Existing Decommissioning, Restoration and Similar Liabilities" and Interpretation 113 – "Jointly Controlled Entities, Non-Monetary Contributions by Venturers Applicable to – annual reporting periods beginning 1 July 2007"

AASB 1049 – Whole of Government and General Government Sector Financial Reporting

This Standard integrates GAAP/ Government Finance Statistics harmonisation requirements for both General Government Sector (GGS) and whole of governments, combining the requirements of AASB 1049 Financial Reporting of General Government Sectors by Governments and the modified proposals from ED 155 Financial Reporting by Whole of Governments (discussed below)

The standard which was issued in October 2007 is effective for annual reporting periods beginning on or after 1 July 2008.

New and Revised Interpretations

Interpretation 13, Customer Loyalty Programmes

An interpretation addressing customer loyalty programmes under which customers are granted customer loyalty award credits was issued in August 2007, and is effective commencing 1 July 2008, but is available for early adoption.

The key points are:

- An entity that grants loyalty award credits must allocate some of the proceeds of the initial sale to the award credits as a liability (its obligation to provide the awards).
- Proceeds allocated to the award credits are measured by reference to their fair value.

for the AASB to issue an Australian Specific Interpretation to achieve consistency in financial reporting.

- Recognition of deferred portion of the proceeds as revenue is allowed only when the entity has fulfilled its obligations.
- If at any time the expected costs of meeting the obligation exceed the consideration received, the entity has an onerous contract for which AASB 137 would require recognition of a liability.
- If application results in a change in accounting policy for customer loyalty awards, AASB 108 applies.

Interpretation 14, the Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction

An interpretation providing general guidance on how to assess the limit in paragraph 58 of AASB 119 Employee Benefits, on the amount of the surplus that can be recognised as an asset by an employer sponsor was issued in August 2007.

It also explains how the defined benefit surplus (asset) or deficiency (liability) recognised by an employer sponsor may be affected when there is a statutory or contractual minimum funding requirement.

The Interpretation is applicable for financial reporting periods commencing 1 January 2008, with early adoption permitted.

Interpretation 1003, Australian Petroleum Resource Rent Tax

The AASB, after much debate has issued an Australian specific interpretation that addresses the question of whether Australian Petroleum Resource Rent Tax falls within the scope of AASB 112 Income Taxes. The consensus reached by the AASB is that Australian PRRT is an income tax within the scope of AASB 112, Income Taxes

This Interpretation applies to annual reporting periods ending on or after 30 June 2008 with early adoption permitted.

This is an Australian Specific Interpretation. As a matter of policy the AASB does not normally issue Interpretations unless an IFRIC is issued first. However the variety of taxes that exist worldwide meant that IFRIC would not be able to develop guidance on which taxes are within the scope of IAS 12 Income Taxes, the international equivalent of AASB 112, in a reasonable time.

Australia's three largest oil and gas companies currently account for PRRT in three different ways, motivating the need

On the Horizon

Draft Interpretation 21, Real Estate Sales

This interpretation aims to standardise accounting practice among real estate developers for sales of units, such as apartments or houses, 'off plan', that is before construction is complete.

At present, real estate developers either record revenue only when they have handed over the completed unit to the buyer or earlier, as construction progresses, by reference to the stage of completion of the development.

The interpretation proposes that revenue should be recorded as construction progresses only if the developer is providing construction services, rather than selling goods (completed real estate units). It also proposes features that indicate that the seller is providing construction services.

This draft interpretation is closed for public comment.

Draft Interpretation 22, Hedges of a Net Investment in a Foreign Operation

Some companies use hedge accounting when translating their financial statements and those of their foreign operations from the entities' respective functional currencies into the company's presentation currency for accounting presentation purposes.

IFRIC D22 clarifies whether this translation can be considered a foreign currency risk that is eligible for hedge accounting.

IFRIC D22 clarifies the situations in which the exposures that arise between different functional currencies of entities create a foreign currency risk that is eligible for hedge accounting and on where, within a group structure, a hedging instrument that hedges a net investment can be held.

IFRIC D22 would apply only to the hedge of a net investment in a foreign operation. It does not apply to other forms of hedge accounting. Furthermore, the hedge of a net investment is allowed only in the financial statements of an entity that includes the net assets of the foreign operation.

This draft interpretation is closed for public comment.

Exposure Draft 155

As part of the AASB's implementation of a Financial Reporting Council (FRC) broad strategic direction, the AASB developed AASB 1049 *Financial Reporting of General Government Sectors (GGS) by Governments* that specifies requirements for financial reporting by a government of its GGS, as defined in the Australian Bureau of Statistics (ABS) Manual. The AASB decided that a Standard should be developed that specifies GAAP/GFS (Government Finance Statistics) harmonisation requirements for whole of government financial reporting, incorporating GGS, PNFC (Public Non-financial Corporations) sector and PFC (Public Financial Corporations) sector financial information. This Exposure Draft represents the Board's proposals for that Standard.

Proposals in the ED for the standard:

- that a government be required to prepare a general purpose whole of government financial report, which consolidates all controlled entities on a line-by-line basis
- that the requirements in other Australian Accounting Standards be applied unless otherwise specified and where Australian Accounting Standards allow for optional treatments, only those treatments aligned with the ABS GFS Manual be applied
- that specified disclosures be included in the summary of significant accounting policies note and other explanatory notes to the financial statements

If the exposure draft is approved it will apply to annual reporting periods beginning on or after 1 July 2008, with early adoption permitted.

To view the full proposals or comment on ED 155, please visit the AASB website at www.aasb.com.au

Exposure Draft 156

In line with the AASB's policy of developing a common accounting standards framework for both for-profit and not-for-profit entities whilst acknowledging differences in some areas, this ED highlights the Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31.

The AASB proposes to create three new topic-based Standards, where requirements currently in AASs 27, 29 and 31 are not covered adequately and /or cannot be appropriately relocated in existing topic-based Standards. The new Standards would apply to local governments, government departments and/or governments. The Standards are:

- AASB 10XX Administered Items- This Standard would present, substantively unamended, the current requirements on administered items from AAS 29 into a topic-based Standard applicable only to government departments.
- AASB 10XY Land under Roads- Transitional Requirements This Standard would retain the current transitional relief for land under roads controlled by local governments, government departments and governments. The new Standard would also address the transition of land under roads into AASB 116 Property, Plant and Equipment, to apply once the current transitional relief lapses.
- AASB 10XZ *Disaggregated Disclosures*- This Standard would present, substantively unamended:
 - the current requirements from AAS 27 on disclosing classifications of assets, income and expenses according to function or activity, applicable only to local governments; and
 - the current requirements from AAS 29 on disclosing service costs and achievements by activity, applicable only to government departments.

If the exposure draft is approved it will apply to annual reporting periods beginning on or after 1 July 2008, with early adoption permitted. To view the full proposals or comment on ED 156, please visit the AASB website at www.aasb.com.au

Frequent Enquiries

International Financial Reporting Interpretations Committee (IFRIC) & AASB Agenda Rejections

IFRIC are selective of the interpretations which they take onto their agenda, and will generally issue an agenda rejection when appropriate understanding and application of the principles and underlying concepts of IFRS make the interpretation of the standard obvious. The IASB is conscious that too many unnecessary interpretations result in the standards becoming rules based contrary to their principles based objective.

Nevertheless, it is important to be aware of IFRIC and AASB Agenda rejections with regard to interpretations, as clarity on accounting treatment is frequently communicated as a result of the rejection statement, notwithstanding that IFRIC and/or the AASB have decided not to issue an interpretation.

We highlight below recent agenda rejections:

AASB

Recognition of Franked Dividend Revenue

The question has arisen whether an entity should recognise franked dividend revenue on a:

- net basis – that is, by recognising only the amount of the dividend as revenue (e.g. if a fully franked dividend of \$70 is received, dividend revenue would be \$70); or
- gross basis – that is, by recognising the sum of the dividend and any franking credit attached to the dividend as revenue (e.g. if a fully franked dividend of \$70 is received, dividend revenue would be \$100, being the sum of \$70 and the franking credit of \$30).

Decision Not to Add: November 2007

Reasons for Not Adding the Issue to the AASB Agenda:

The AASB has not observed evidence of divergence in practice and considers that franked dividends should continue to be recognised on a net basis because revenue typically is measured at the fair value of the consideration received or receivable, which does not take into account entity specific tax implications.

Applicability of Australian Accounting Standards to Non-Reporting Entities

An issue has arisen on whether non-reporting entities are required to apply the recognition and measurement requirements of all AASB Standards in their accounting and reporting, despite the application paragraphs in those Standards generally purporting to limit their application to reporting entities and to general purpose financial reports.

Decision Not to Add: May 2007

Reasons for Not Adding the Issue to the AASB Agenda:

The AASB considers that the IASB's SMEs project interacts with a number of other fundamental issues in the financial reporting regime in Australia and decided that these issues should be debated before deciding how the AASB might use the IASB's ED of IFRS for SMEs and what requirements might apply to non-reporting entities in the future.

IFRIC

AASB 5 Plan to sell the controlling interest in a subsidiary

A question was raised on how AASB 5 should be applied when an entity is committed to a plan to sell the controlling interest in a subsidiary? Specifically:

1. What triggers classification of the subsidiary's assets and liabilities as held for sale under AASB 5?

2. When classification as held for sale is required, should all the subsidiary's assets and liabilities be classified as held for sale or only the portion to be sold?
3. Is classification as a discontinued operation relevant when the entity plans to retain significant influence over its former subsidiary after the sale?
4. After the sale, how should the remaining non-controlling equity investment be measured?

Decision Not to Add: July 2007

Reason: In considering the first two issues, the IFRIC decided to recommend to the Board that it amend AASB 5 to clarify whether the criteria for classification as held for sale are met for all of a subsidiary's assets and liabilities when the parent is committed to a plan that involves loss of control over the subsidiary. The IFRIC believed that AASB 5 should be amended to clarify that having a plan that meets the conditions in AASB 5 involving loss of control over a subsidiary should trigger classification as held for sale of all the subsidiary's assets and liabilities.

On the third issue, the IFRIC noted that a disposal group classified as held for sale will also be a discontinued operation if the criteria of paragraph 32 of AASB 5 are met. Because the IFRIC did not expect divergence to emerge in practice, it decided not to address the issue.

The IFRIC noted that the last issue is being considered in the Board's project on business combinations and, therefore, decided not to address that issue.

AASB 5 Disclosures

A question was raised on whether the disclosure requirements of other standards, in the absence of specific exclusion, apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with AASB 5?

Decision Not to Add: September 2007

Reason: The IFRIC concluded that this issue could be resolved efficiently through an amendment to clarify AASB 5 and decided to draw the issue to the attention of the Board rather than taking the item on to its own agenda. The IFRIC also believed that such an amendment should generally reflect the view that AASB 5 and other standards that specifically relate to such assets and operations set out all of the required disclosures for those assets or operations, although additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of AASB 101 Presentation of Financial Statements.

AASB 116 'gross' or 'net' presentation of sale of assets held for rental

Issue was raised on whether the sale of an asset that has previously been rented to third parties be presented 'gross' (revenue and costs of sales) or 'net' (gain or loss) in the income statement?

Decision Not to Add: May 2007

Reason: IFRSs seem to suggest that either the gross or net basis of presentation is acceptable. For this reason, the IFRIC decided not to address the issue but, rather, to draw the issue to the attention of the Board.

AASB 117 Sale and leasebacks with repurchase agreements

A question was raised on whether transactions that take the form of a sale and leaseback transaction should be accounted for as such when the seller/lessee retains effective control of the leased asset through a repurchase agreement or option.

Decision Not to Add: March 2007

Reason: AASB 117 applies only to transactions that convey a right to use an asset. SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and Interpretation 4 *Determining whether an Arrangement contains a Lease* provide guidance on when an arrangement conveys a right of use. If, applying the criteria in SIC-27 and Interpretation 4, an entity determines that an arrangement does not convey a right of use, the transaction is outside the scope of AASB 117 and the sale and leaseback accounting in AASB 117 should not be applied. Therefore, the IFRIC concluded that significantly divergent interpretations should not exist in practice.

Should you require additional information, please contact

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AASB 118 Guidance on identifying agency relationships

The issue was how should AASB 118.8 be applied when an entity employs another entity to meet the requirements of a customer under a sales contract?

Decision Not to Add: September 2007

Reason: The IFRIC acknowledged that while the standard does not provide detailed guidance, it does address the issue: 'In an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.' Paragraphs 6 and 18(d) of the Appendix to AASB 118 refer to the substance of the transaction to identify whether the entity is acting as agent or principal. The IFRIC concluded that:

Determining whether an entity is acting as a principal or as an agent depends on facts and circumstances and that judgement is required;

Any guidance beyond that given in AASB 118 would be more in the nature of implementation guidance than an Interpretation.

For these reasons the IFRIC decided not to develop an Interpretation and to remove this item from its agenda. The IFRIC did agree to recommend to the Board that guidance be included in the Appendix to AASB 118 to help constituents to determine whether an entity is acting as a principal or as an agent