

Explanatory Statement

Accounting Standard AASB 2007-4
Amendments to Australian Accounting
Standards arising from ED 151 and
Other Amendments

April 2007



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Adoption of Australian equivalents to IFRSs

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB), for application to reporting periods beginning on or after 1 January 2005.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB uses the IASB Standards as the 'foundation' Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

On 15 July 2004, the Board made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

Reasons for Issuing AASB 2007-4

AASB 2007-4 makes amendments to the following Australian Accounting Standards:

1. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*;
2. AASB 2 *Share-based Payment*;
3. AASB 3 *Business Combinations*;
4. AASB 4 *Insurance Contracts*;
5. AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
6. AASB 6 *Exploration for and Evaluation of Mineral Resources*;
7. AASB 7 *Financial Instruments: Disclosures*;
8. AASB 102 *Inventories*;
9. AASB 107 *Cash Flow Statements*;
10. AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
11. AASB 110 *Events after the Balance Sheet Date*;
12. AASB 112 *Income Taxes*;
13. AASB 114 *Segment Reporting*;
14. AASB 116 *Property, Plant and Equipment*;
15. AASB 117 *Leases*;
16. AASB 118 *Revenue*;
17. AASB 119 *Employee Benefits*;
18. AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*;
19. AASB 121 *The Effects of Changes in Foreign Exchange Rates*;

20. AASB 127 *Consolidated and Separate Financial Statements*;
21. AASB 128 *Investments in Associates*;
22. AASB 129 *Financial Reporting in Hyperinflationary Economies*;
23. AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*;
24. AASB 131 *Interests in Joint Ventures*;
25. AASB 132 *Financial Instruments: Disclosure and Presentation*;
26. AASB 132 *Financial Instruments: Presentation*;
27. AASB 133 *Earnings per Share*;
28. AASB 134 *Interim Financial Reporting*;
29. AASB 136 *Impairment of Assets*;
30. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
31. AASB 138 *Intangible Assets*;
32. AASB 139 *Financial Instruments: Recognition and Measurement*;
33. AASB 141 *Agriculture*;
34. AASB 1023 *General Insurance Contracts*; and
35. AASB 1038 *Life Insurance Contracts*.

These amendments arise as a result of the AASB decision that, in principle, all options that currently exist under IFRSs should be included in the Australian equivalents to IFRSs and additional Australian disclosures should be eliminated, other than those now considered particularly relevant in the Australian reporting environment.

Main Features of AASB 2007-4

Application Date

AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007. An entity adopting AASB 2007-4 early must adopt the whole Standard early.

Main Requirements

AASB 2007-4 makes a number of amendments, including:

- inserting the option to use the indirect method for presenting cash flow statements under AASB 107 *Cash Flow Statements*;
- removing the commentary from AASB 119 Employee Benefits that Australia does not have a sufficiently active and liquid market for high quality corporate bonds for the purposes of discounting employee benefit liabilities, and including a paragraph requiring not-for-profit public sector entities to use market yields on government bonds to discount such liabilities;
- inserting the options in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* to record non-monetary grants at nominal amounts and to present assets and expenses net of related grants;
- amending the definition of ‘separate financial statements’ in AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates*, AASB 131 *Interests in Joint Ventures*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* to be the same as the IFRS definition;
- inserting the option to use proportionate consolidation for investments in joint venture entities under AASB 131; and
- removing many of the additional Australian disclosure requirements in a number of Standards, including AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, AASB 131, and AASB 134 *Interim Financial Reporting*.

When an entity adopts an accounting policy that is available as a result of the amendments made by AASB 2007-4, it applies AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Accordingly, an entity wishing to change its existing accounting policies to use a newly

available treatment, needs to meet the criterion set out in paragraph 14(b) of AASB 108 in relation to changes in accounting policy.

Other Amendments

AASB 2007-4 also makes numerous editorial amendments to a range of Standards to reflect changes made to the text of IFRSs by the IASB. These editorial amendments have no substantive impact on the requirements in the amended Standards.

Consultation Prior to Issuing AASB 2007-4

In the process of adopting IFRSs in Australia, the AASB made a number of additions to, and deletions from, the Standards. The AASB considered this to be necessary in order to provide a sound basis for the transition to Australian equivalents to IFRSs and to maintain a high level of consistency in Australian financial reporting. In particular, the AASB deleted optional treatments from the IFRSs when an existing Australian Standard (pre-2005) allowed only one of those treatments. The AASB also added disclosures to the IFRSs that existed in (pre-2005) Australian Standards.

Based on its experience in implementing Australian equivalents to IFRSs, the AASB decided to make the Australian requirements the same as IFRSs in respect of for-profit entities.

The AASB issued Exposure Draft ED 151 *Australian Additions to, and Deletions from, IFRSs* in November 2006, which invited comments from Australian constituents on proposed amendments to Australian equivalents to IFRSs relating to the additions and deletions made by the AASB. Most of the respondents to ED 151 supported the Board's proposals in the interests of gaining the greatest benefit from having adopted IFRSs in Australia.

In addition to the amendments proposed in ED 151, the AASB made a number of editorial changes to the Standards based on errors and other matters identified by the AASB and IASB staff.

A Regulatory Impact Statement has not been prepared in connection with the issue of AASB 2007-4 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature and clarify existing requirements.