

Explanatory Statement

Accounting Standard AASB 2008-7
Amendments to Australian Accounting
Standards – Cost of an Investment in
a Subsidiary, Jointly Controlled Entity or
Associate

July 2008



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2008-7

This Standard makes amendments to the following Australian Accounting Standards:

1. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*;
2. AASB 118 *Revenue*;
3. AASB 121 *The Effects of Changes in Foreign Exchange Rates*;
4. AASB 127 *Consolidated and Separate Financial Statements* (July 2004, as amended);
5. AASB 127 *Consolidated and Separate Financial Statements* (March 2008, as amended); and
6. AASB 136 *Impairment of Assets*.

These amendments arise from proposals included in Exposure Draft ED 160 “Exposure Draft of Proposed Amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and AASB 127 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*”.¹

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

An entity adopting this Standard early is required to adopt the whole Standard early.

¹ The amendments follow the issuance of corresponding amendments by the International Accounting Standards Board in May 2008.

Main Requirements

This Standard:

- (a) amends AASB 1 to allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. The deemed cost of such an investment can be either its:
 - (i) fair value (determined in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*) at the entity's date of transition to Australian-equivalents-to-IFRSs; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either deemed cost option to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost;
- (b) removes from AASB 118 the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. Therefore, all dividends from a subsidiary, jointly controlled entity or associate are recognised by the investor as income;
- (c) amends AASB 127 to require, in particular circumstances, a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of the share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The relevant circumstances include that the reorganisation involves:
 - (i) the new parent obtaining control of the original parent through an exchange of equity instruments;
 - (ii) no change to the group's assets and liabilities; and
 - (iii) no change to the owners' absolute and relative interests in the net assets; and
- (d) amends AASB 136 to include recognising a dividend from a subsidiary, jointly controlled entity or associate, together with other evidence, as an indication that the investment in the subsidiary, jointly controlled entity or associate may be impaired.

Consultation Prior to Issuing AASB 2008-7

The AASB issued Exposure Draft ED 160 “Exposure Draft of Proposed Amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and AASB 127 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*” in December 2007. ED 160 reproduced the IASB proposals without amendment and invited comments from Australian constituents on the proposed amendments.

The AASB received ten submissions that were generally supportive of the proposals, although they raised some concerns regarding the practical application of some of the proposals. In its submission to the IASB, the AASB supported the proposed amendments, noted the concerns of constituents and suggested alternate approaches that would alleviate the concerns. The IASB addressed these concerns and made changes to the proposals in issuing its final Standard.

A Regulation Impact Statement has not been prepared in connection with the issue of AASB 2008-7 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.