

Explanatory Statement

Accounting Standard AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*

February 2018



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2018-1

This Standard makes amendments to AASB 3 *Business Combinations* (August 2015), AASB 11 *Joint Arrangements* (July 2015), AASB 112 *Income Taxes* (August 2015) and AASB 123 *Borrowing Costs* (August 2015).

These amendments arise from the issuance of International Financial Reporting Standard *Annual Improvements to IFRS Standards 2015–2017 Cycle* by the International Accounting Standards Board (IASB) in December 2017.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Main Features of AASB 2018-1

Main Requirements

The Standard amends:

- (a) AASB 3 to clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business;
- (b) AASB 11 to clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business;
- (c) AASB 112 to clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and
- (d) AASB 123 to clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

Application Date

AASB 2018-1 applies to annual periods beginning on or after 1 January 2019. Earlier application is permitted.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 275 *Definition of a Business and Accounting for Previously Held Interests* in June 2016 for comment by 23 September 2016. ED 275 incorporated IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests*. Two submissions were received by the AASB in respect of the proposals in ED 275, supporting the proposed amendments to accounting for previously held interests. The AASB did not make a submission to the IASB on ED/2016/1 as no Australian-specific issues were identified by either the AASB or constituents. Two Australian constituents made submissions to the IASB on ED/2016/1, supporting the proposed amendments to accounting for previously held interests.

The IASB analysed the feedback it received on the proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* on accounting for previously held interests and decided to finalise those amendments with no substantive changes, setting the mandatory effective date of 1 January 2019, with earlier application permitted. The IASB has not yet finalised the proposed amendments relating to the definition of a business.

The AASB issued Exposure Draft ED 276 *Annual Improvements to Australian Accounting Standards 2015–2017 Cycle* in January 2017 for comment by 8 March 2017. ED 276 incorporated IASB Exposure Draft ED/2017/1 *Annual Improvements to IFRS Standards 2015–2017 Cycle*. No submissions were received by the AASB in respect of the proposals in ED 276. The AASB did not make a submission to the IASB on ED/2017/1 as no Australian-specific issues were identified by either the AASB or constituents.

The IASB analysed the feedback it received on the proposed amendments to IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* and decided to finalise those amendments with the only substantive change being to simplify the transition requirements for the amendments to IAS 12. The IASB decided that an entity should apply the amendments

prospectively to income tax consequences of dividends recognised on or after the beginning of the earliest reporting period presented in the financial statements for the period when the amendments are first adopted by an entity. The IASB set an effective date of 1 January 2019, with earlier application permitted.

The AASB considered the amendments made by the IASB to IFRS 3, IFRS 11, IAS 12 and IAS 23 in finalising AASB 2018-1 and the amendments to the corresponding Standards AASB 3, AASB 11, AASB 112 and AASB 123.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2018-1 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

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Overview of the Accounting Standard

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The Standard amends:

- (a) AASB 3 to clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business;
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- (d) AASB 123 to clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.