AASB Standard

AASB 2020-3
June 2020

Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments

[AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 & AASB 141]

Australian Government

Australian Accounting Standards Board

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

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Australian Accounting Standard AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments* is set out on pages 5 – 12. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2020-3

This Standard makes amendments to the following Australian Accounting Standards:

(a) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015);

(b) AASB 3 *Business Combinations* (August 2015);

(c) AASB 9 *Financial Instruments* (December 2014);

(d) AASB 116 *Property, Plant and Equipment* (August 2015);

(e) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015); and

(f) AASB 141 *Agriculture* (August 2015).

These amendments arise from the issuance by the International Accounting Standards Board (IASB) in May 2020 of the following International Financial Reporting Standards:

(a) *Annual Improvements to IFRS Standards 2018–2020*;

(b) *Reference to the Conceptual Framework* (Amendments to IFRS 3);

(c) *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16); and

(d) *Onerous Contracts—Cost of Fulfilling a Contract* (Amendments to IAS 37).

Main features of this Standard

Main requirements

This Standard amends:

(a) AASB 1 to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences;

(b) AASB 3 to update a reference to the *Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations;

(c) AASB 9 to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability;

(d) AASB 116 to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset;

(e) AASB 137 to specify the costs that an entity includes when assessing whether a contract will be loss-making; and

(f) AASB 141 to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Application date

This Standard applies to annual periods beginning on or after 1 January 2022. Earlier application of the amendments to individual Standards is permitted.

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Accounting Standard AASB 2020-3

The Australian Accounting Standards Board makes Accounting Standard AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments* under section 334 of the *Corporations Act 2001*.

Dated 15 June 2020

Keith Kendall
Chair – AASB

Accounting Standard AASB 2020-3
Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments

Objective

This Standard amends:

(a) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015);

(b) AASB 3 *Business Combinations* (August 2015);

(c) AASB 9 *Financial Instruments* (December 2014);

(d) AASB 116 *Property, Plant and Equipment* (August 2015);

(e) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015); and

(f) AASB 141 *Agriculture* (August 2015);

as a consequence of the issuance by the International Accounting Standards Board in May 2020 of the following International Financial Reporting Standards:

(g) *Annual Improvements to IFRS Standards 2018–2020*;

(h) *Reference to the Conceptual Framework* (Amendments to IFRS 3);

(i) *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16); and

(j) *Onerous Contracts—Cost of Fulfilling a Contract* (Amendments to IAS 37).

Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards.*

This Standard applies to annual periods beginning on or after 1 January 2022. The amendments to individual Standards may be applied early, separately from the amendments to the other Standards.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Ellipses (…) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 1

Paragraph 39AG and, in Appendix D, paragraph D13A are added. Paragraph D1(f) is amended. New text is underlined and deleted text is struck through.

Effective date

...

39AG AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, amended paragraph D1(f) and added paragraph D13A. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Appendix D
Exemptions from other Australian Accounting Standards

This appendix is an integral part of the Standard.

D1 An entity may elect to use one or more of the following exemptions:

...

(f) cumulative translation differences (paragraphs D12–D13A ~~and D13~~);

...

Cumulative translation differences

...

D13A Instead of applying paragraph D12 or paragraph D13, a subsidiary that uses the exemption in paragraph D16(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Australian Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in paragraph D16(a).

...

Amendments to AASB 3

Paragraph 11 is amended and the footnotes to the *Framework for the Preparation and Presentation of Financial Statements* in paragraph 11 are deleted. Paragraphs 14, 21, 22 and 23 are amended and paragraphs AusCF11, 21A, 21B, AusCF21B, 21C, 23A and 64Q are added. A heading is added above paragraph 21A and the headings below paragraph 21 and above paragraph 22 are amended. New text is underlined and deleted text is struck through. Paragraph 10 is unamended but is included for ease of reference.

The acquisition method

...

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

10 As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 11 and 12.

Recognition conditions

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the ~~*Framework for the Preparation and Presentation of Financial Statements*~~ *Conceptual Framework for Financial Reporting* (as identified in

AASB 1048 *Interpretation of Standards*)~~[1, AusCF1]~~ at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Australian Accounting Standards.

~~1~~ ~~For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the AASB in 2004 rather than the *Conceptual Framework for Financial Reporting* issued in 2019.~~

~~AusCF1~~ ~~Notwithstanding footnote 1, in respect of AusCF entities, in December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements.*~~

<u>AusCF11</u> <u>Notwithstanding paragraph 11, in respect of AusCF entities, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*)[AusCF1] at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Australian Accounting Standards.</u>

<u>AusCF1 In respect of AusCF entities, in December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements.*</u>

...

14 Paragraphs B31–B40 provide guidance on recognising intangible assets. Paragraphs ~~22~~<u>21A</u>–28B specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

...

Exceptions to the recognition or measurement principles

21 This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs ~~22~~ <u>21A</u>–31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs ~~22~~ <u>21A</u>–31A, which will result in some items being:

(a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other Australian Accounting Standards, with results that differ from applying the recognition principle and conditions.

(b) measured at an amount other than their acquisition- date fair values.

~~Exception~~ <u>Exceptions</u> to the recognition principle

<u>Liabilities and contingent liabilities within the scope of AASB 137 or Interpretation 21</u>

<u>21A</u> <u>Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* or Interpretation 21 *Levies* (as identified in AASB 1048 *Interpretation of Standards*) if they were incurred separately rather than assumed in a business combination.</u>

<u>21B</u> <u>The *Conceptual Framework for Financial Reporting* defines a liability as 'a present obligation of the entity to transfer an economic resource as a result of past events'. For a provision or contingent liability that would be within the scope of AASB 137, the acquirer shall apply paragraphs 15–22 of AASB 137 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of Interpretation 21, the acquirer shall apply Interpretation 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.</u>

<u>AusCF21B</u> <u>Notwithstanding paragraph 21B, in respect of AusCF entities, the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*) defines a liability as 'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying</u>

economic benefits'. For a provision or contingent liability that would be within the scope of AASB 137, the acquirer shall apply paragraphs 15–22 of AASB 137 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of Interpretation 21, the acquirer shall apply Interpretation 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

21C A present obligation identified in accordance with paragraph 21B might meet the definition of a contingent liability set out in paragraph 22(b). If so, paragraph 23 applies to that contingent liability.

Contingent liabilities and contingent assets

22 AASB 137 ~~*Provisions, Contingent Liabilities and Contingent Assets*~~ defines a contingent liability as:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

23 ~~The requirements in AASB 137 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the~~ The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs 14(b), 23, 27, 29 and 30 of AASB 137, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph 56 of this Standard provides guidance on the subsequent accounting for contingent liabilities.

23A AASB 137 defines a contingent asset as 'a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity'. The acquirer shall not recognise a contingent asset at the acquisition date.

...

Effective date and transition

Effective date

...

64Q AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, amended paragraphs 11, 14, 21, 22 and 23 and added paragraphs AusCF11, 21A, 21B, AusCF21B, 21C and 23A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in May 2019.

Amendments to AASB 9

Paragraph 7.1.9, paragraph 7.2.35 and its heading, and paragraph B3.3.6A are added. Paragraph B3.3.6 is amended. New text is underlined. The requirements in paragraph B3.3.6A have not been amended but have been moved from paragraph B3.3.6.

Chapter 7 Effective date and transition

7.1 Effective date

...

7.1.9 AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, added paragraphs 7.2.35 and B3.3.6A and amended paragraph B3.3.6. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

7.2 Transition

...

Transition for Annual Improvements to Australian Accounting Standards

7.2.35 An entity shall apply AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments* to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Appendix B
Application guidance

This appendix is an integral part of AASB 9.

...

Recognition and derecognition (Chapter 3)

...

Derecognition of financial liabilities (Section 3.3)

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B3.3.6 For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. In determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

B3.3.6A If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

...

Amendments to AASB 116

Paragraphs 17 and 74 are amended; paragraphs 20A, 74A, 80D and 81N are added. The requirements formerly in paragraph 74(d) have not been amended but have been moved to paragraph 74A(a). Deleted text is struck through and new text is underlined.

Measurement at recognition

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Elements of cost

...

17 Examples of directly attributable costs are:

...

(e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes)~~, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)~~; and

...

...

20A Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of AASB 102.

...

Disclosure

...

74 The financial statements shall also disclose:

...

(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction; and

(c) the amount of contractual commitments for the acquisition of property, plant and equipment~~; and~~

~~(d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss~~.

74A If not presented separately in the statement of comprehensive income, the financial statements shall also disclose:

(a) the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss; and

(b) the amounts of proceeds and cost included in profit or loss in accordance with paragraph 20A that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

Transitional provisions

...

80D AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, amended paragraphs 17 and 74 and added paragraphs 20A and 74A. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Effective date

...

81N AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, amended paragraphs 17 and 74, and added paragraphs 20A, 74A and 80D. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to AASB 137

Paragraphs 68A, 94A and 105 are added and paragraph 69 is amended. Paragraph 68 is not amended, but is included for ease of reading. New text is underlined and deleted text is struck through.

Application of the recognition and measurement rules

...

Onerous contracts

...

68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

68A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

(a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and

(b) an allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets ~~dedicated to that~~ used in fulfilling the contract (see AASB 136).

...

Transitional provisions

...

94A AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, added paragraph 68A and amended paragraph 69. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Effective date

...

105 AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to AASB 141

Paragraph 22 is amended and paragraph 65 is added. New text is underlined and deleted text is struck through.

Recognition and measurement

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22 An entity does not include any cash flows for financing the assets~~, taxation,~~ or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

...

Effective date and transition

...

65 AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, amended paragraph 22. An entity shall apply that amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Commencement of the legislative instrument

For legal purposes, this legislative instrument commences on 31 December 2021.