Accounting alert 2007/09

AASB 2007-4 – New accounting policy choices, reduced disclosure

Overview

AASB 2007-4 has been made available on the AASB's web site: www.aasb.com.au

The AASB has released Amending Standard AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*. AASB 2007-4 implements the vast majority of the proposals in AASB Exposure Draft ED 151 *Australian Additions to, and Deletions from, IFRSs* and also includes other editorial amendments and corrections due to equivalent IASB changes.

The amendments made by AASB 2007-4 bring Australian equivalents to International Financial Reporting Standards (A-IFRS) much closer to their IFRS equivalents – in all, 34 different Standards are affected to some degree by the Amending Standard. New accounting policy options are introduced and a large number (but not all) of the Australian-specific disclosures and requirements have been eliminated.

Early adoption may be attractive

AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007, but may be early adopted so long as all its requirements are adopted at the same time. We expect that many entities will find early adoption attractive, particularly where existing disclosures are considered superfluous, or where the new accounting policy options are considered to be more appropriate to an entity's operations.

In this *Accounting alert*, we provide some guidance on the application of the Amending Standard and discuss a number of associated issues. In addition, the Appendices provide a detailed summary of all the non-editorial changes and their impacts on the various Standards, providing a checklist for people to utilise in their consideration and implementation of AASB 2007-4.

It should also be noted that the Amending Standard is focussed on for-profit entities. No amendments, other than minor 'consequential' amendments, have been made to the specific requirements incorporated into A-IFRS for not-for-profit entities. The not-for-profit sector requirements are expected to be addressed by the AASB in a joint project with the Financial Reporting Standards Board of New Zealand.

The new accounting options are a voluntary change in accounting policy

The AASB's introduction of new accounting policy choices well after most entities have transitioned to A-IFRS brings with it a nasty consequence for Australian entities. Unlike many of their international counterparts, Australian entities face certain restrictions in adopting the choices available, even though those choices were not available on transition.

Adopting the new accounting policy options is not a 'free choice'

AASB 2007-4 makes it clear that the adoption of a new accounting policy as a result of its amendments must be made as a voluntary change in accounting policy under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

AASB 108 only permits a voluntary change in accounting policy if the change results in the financial report providing reliable and more relevant information on the entity's financial position, performance and cash flows.

In some cases, this will be easy to illustrate, but in others the task may be more difficult. Entities wishing to change their accounting policies as a result of AASB 2007-4 therefore need to tread carefully – thoroughly considering the available options and ensuring justification for changes are appropriately documented and authorised.

Factors to consider

Factors to consider in justifying a change in accounting policy include:

- the nature of the entity's operations and transactions and how they would be best presented in the financial report
- whether the entity has previously highlighted that the option is available under IFRS but not A-IFRS and would be more appropriately applied to the entity
- whether alternative approaches have been adopted by the entity under any other reporting frameworks that an entity may report under (e.g. US-GAAP or 'pure' IFRS)
- the accounting policies adopted by firms reporting under IFRS that operate in similar industry sectors globally
- the wording of the relevant Standards where new options are introduced – e.g. the joint venture accounting amendments make the existing equity accounting approach the 'alternative method'
- the basis for conclusions on the relevant IFRS pronouncements.

Changes in accounting policies need to be justified and be made in light of the IASB's on-going work program to eliminate options under IFRS

In our view, we do not believe that the AASB's initial views that the new options were not appropriate in the Australian context are authoritative, i.e. the AASB's original views should not of themselves prohibit a change in accounting policy.

Finally, in forming a view of which accounting policy choice should be made, entities should be cognisant of the IASB's on-going work program, which aims to eliminate many of the remaining options under IFRS. A cost/benefit analysis of changing accounting policies needs to anticipate any likely changes in Standards, although any such changes are unlikely to apply before 2009.

A number of disclosures about AASB 2007-4 are also required to be made under AASB 108, whether the Amending Standard has been early adopted or not. Example disclosures are illustrated in Appendix C.

Proportionate consolidation for jointly controlled entities

New accounting policy choice

The concept of 'proportionate consolidation' of interests in jointly controlled entities is introduced for the first time in the Australian context by AASB 2007-4. Entities that are venturers in jointly controlled entities can now choose to account for their interests using either proportionate consolidation or equity accounting as an accounting policy choice.

The use of proportionate consolidation is quite common under IFRS and we expect that its adoption may be quite attractive for a number of entities, particularly in the extractive industries and real estate sectors.

Proportionate consolidation results in an entity taking up its share of the jointly controlled entity's assets, liabilities, income and expenses. The procedures required are not dissimilar to normal consolidation procedures, although no minority interest in the jointly controlled entity is shown. Accordingly, fair value adjustments, intangibles and goodwill would need to be presented where relevant.

Outcomes

The outcomes in terms of net assets and profit/loss will often be the same under proportionate consolidation and equity accounting, although the composition of the balance sheet and income statement will be quite different under each approach – for instance, the sales, expenses and income tax expense of a jointly controlled entity would be aggregated with the entity's own items under a proportionate consolidation approach.

However, differences can arise in some cases, including the following:

The bottom line impacts of proportionate consolidation can be different to equity accounting in some cases

- losses of a jointly controlled entity will continue to be recognised under a proportionate consolidation approach, even though equity accounting may be suspended if the carrying amount of the investment is reduced to zero
- goodwill will be separately recognised and tested for impairment under proportionate consolidation – any impairment losses recognised cannot be reversed, whereas impairment losses on an equity accounted investment can be reversed.

Issues

There are a number of issues surrounding proportionate consolidation, including the following:

- how minority interests **within** a jointly controlled entity should be taken into account when applying proportionate consolidation, i.e. where the jointly controlled entity itself has partly-owned subsidiaries
- whether, and if so how, any elections made by an entity under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* in respect of its interest in an equity accounted investment should be taken into account on changing to a proportionate consolidation approach when applying AASB 108 to the change of accounting policy.

Entities need to be aware that the option of using proportionate consolidation only applies to a **venturer's** interest in a jointly controlled entity, i.e. where the entity participates in joint control over the entity. In some joint venture arrangements, entities have an ownership interest in a jointly controlled entity but cannot participate in joint control over the entity. In this case, the entity would be **prohibited** from adopting proportionate consolidation in respect of its interest, and instead account for its investment using the equity method (if they can exert significant influence) or otherwise in accordance with AASB 139.

The IASB is proposing to eliminate proportionate consolidation

It should be noted that the IASB is currently undertaking a project on joint ventures and expects to issue an exposure draft of a proposed amended IAS 31 during 2007. The IASB has tentatively decided to eliminate the proportionate consolidation option from IAS 31, although in some (limited) cases the proposed 'undivided interest' approach may result in similar outcomes, even where a corporate entity structure is adopted for a joint venture arrangement.

Government grant accounting

AASB 2007-4 introduces a number of new options into AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. The key options apply to for-profit entities only and are as follows:

A number of new accounting policy options have been introduced in relation to government grants

- government grants in the form of a transfer of a non-monetary asset can be recognised at a nominal amount (or at fair value as was previously required)
- government grants related to assets can be presented as a deduction from the carrying amount of the related asset (or set up as 'deferred income' as was previously required)
- government grants received and recognised in the income statement can be deducted in reporting the related expense (or recognised as a credit as was previously required).

Consequential amendments have been made to a number of other Standards, such as AASB 112 *Income Taxes*, where the deferred tax consequences of the new options are now addressed.

Care needs to be taken if changing accounting policies in this area, particularly in relation to the following:

- the interaction with any deemed cost and other AASB 1 elections made in relation to affected assets on transition to A-IFRS
- the retrospective adjustment of depreciation expense, revenues, inventory costing and other affected line items in the financials statements
- the impact on key ratios and performance measures.

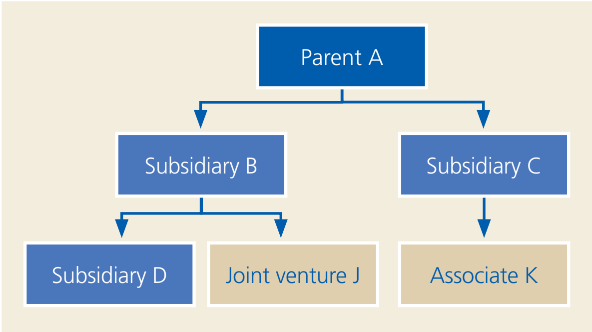
New definitions and requirements surrounding financial statements

A new definition of 'separate financial statements'

The revised definition of 'separate financial statements' can affect the financial report prepared by some entities

The definition of 'separate financial statements' has been amended in various Standards to include a reference to an investor in an associate or a venturer in a jointly controlled entity. Whilst this may appear to be an innocuous change, it can have significant impacts on the financial reports of certain entities.

For instance, consider the following structure, where Parent A is either a non-reporting entity (not preparing consolidated financial statements), or a foreign parent reporting under 'pure' IFRS:



Under the previous Australian definition of 'separate financial statements', only Parent A and Subsidiary B could prepare 'separate financial statements' as they were 'parents of subsidiaries'. Therefore, in the stand-alone (not consolidated) financial statements of A and B, the investments in their subsidiaries, joint ventures and associates could be measured using the cost basis, or in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. However, the stand-alone financial statements of Subsidiary C would be required to adopt equity accounting in relation to Associate K, as C was not a parent of a subsidiary and therefore could not prepare 'separate financial statements'.

Under the revised definition, Subsidiary C can also prepare 'separate financial statements', as it is 'an investor in an associate'. Therefore, Subsidiary C can adopt the cost or AASB 139 measurement of its investment in Associate K on adopting AASB 2007-4.

Different types of financial statements

The AASB originally decided to amend the definition of 'separate financial statements' to address a concern that under the IFRS definition, single entities without a parent or subsidiary could elect to only prepare 'separate financial statements' and thereby avoid equity accounting their interests in associates and joint ventures.

Aligning the type and definitions of 'financial statements' with IFRS creates some issues

There are now many 'types' of financial statements referred to under A-IFRS as amended by AASB 2007-4, including the following:

- 'separate financial statements', in which interests in subsidiaries, associates and jointly controlled entities are accounted for using the cost method or in accordance with AASB 139
- 'financial statements in which investments are accounted for using the equity method'
- 'financial statements in which venturer's interests in joint ventures are proportionately consolidated'
- consolidated financial statements
- financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a joint venture.

There remains some uncertainty as to how the requirements of the *Corporations Act 2001* should inter-relate with the various types of 'financial statements' outlined above. The Act refers to 'financial statements' (and 'consolidated financial statements, where required by Accounting Standards), without explicitly specifying which type of 'financial statements' should be prepared.

However, we believe that the best interpretation of IFRS is that the 'highest level' of financial statements should be prepared. Accordingly, in our view, entities with investments in associates or jointly controlled entities should prepare financial statements that include equity accounted information, or proportionately consolidated information, as the case may be.

If divergent practice develops in relation to this matter, additional guidance may need to be considered by the AASB or Treasury.

Exemptions from the preparation of consolidated financial statements

The exemptions from the preparation of consolidated financial statements in AASB 127 *Consolidated and Separate Financial Statements* have been amended by AASB 2007-4 to be based on the equivalent IFRS requirements.

Parent entities that are reporting entities and satisfy all of the following requirements will therefore be exempt from preparing consolidated financial statements:

The new exemptions may not have widespread initial impact, but will become important if the AASB eliminates the 'reporting entity concept'

- the entity is a wholly-owned subsidiary, or a partially-owned subsidiary (where the owners do not object to consolidated financial statements not being prepared)
- the entity's debt or equity instruments are not traded in a public market
- the entity has not filed, nor is it in the process of filing, its financial reports with a securities commission or other regulatory organisation for the purposes of issuing securities in a public market
- the ultimate or any intermediate parent of the entity produces consolidated financial statements available for public use that comply with IFRS.

Consequential amendments have been made to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*, permitting an equivalent exemption from equity accounting or proportionate consolidation where an entity qualifies for the new exemption in AASB 127.

However, ultimate Australian parent entities will still be required to prepare consolidated financial statements (or equity accounted or proportionately consolidated financial statements where applicable) if either the parent or the group (or both) are reporting entities, even if the above requirements are met.

Accordingly, these changes will not have a widespread impact. However, if the AASB's tentative proposals regarding the elimination of the 'reporting entity' concept are enacted as part of the introduction of an Australian Small and Medium Entities (SME) Standard, this exemption may become very relevant, particularly in corporate groups. For more information on this topic, see *Accounting alert 2007/07*.

Changes to cash flow statements

Using the indirect method

AASB 2007-4 amends AASB 107 *Cash Flow Statements* to permit an entity to present its cash flow statement using the 'indirect method'. When using this method, the reconciliation between operating profit and cash flows from operations is effectively presented in the operating cash flow section of the cash flow statement. Accordingly, separate disclosure of items such as 'receipts from customers' and 'payments to suppliers and employees' would no longer be disclosed.

The amendments (equivalent to the IFRS wording) made to AASB 107 themselves encourage entities to report cash flows using the direct method, noting that the direct method provides information which may be useful in estimating future cash flows and which are not available under the indirect method.

It may be difficult to support a change to the indirect method of reporting operating cash flows

Accordingly, it may be difficult to support a change to the indirect method resulting in 'reliable and more relevant information' when applying AASB 108. Limited situations where adopting the indirect method may be available include:

- on first-time adoption of A-IFRS, such as by a newly incorporated entity
- where global participants in an the entity's industry and peer group routinely use the indirect method
- where analysts, shareholders and other users of the financial statements have indicated a clear preference for the use of the indirect method
- where the entity's operations are such that the information provided by the direct method is not materially different to the indirect method, e.g. dormant companies, companies without substantial operations, corporate and other entities with one major operating cash outflow and limited revenue, and so on.

Australian reconciliation requirement retained

AASB 2007-4 retains the 'operating profit to operating cash flow' requirement for entities that prepare their cash flow using the direct method, even though this is not required under IFRS. In effect, entities choosing the direct method present the operating section of the cash flow statement under both approaches.

There are more issues to be addressed on the long road to true IFRS convergence

Whilst the implementation of AASB 2007-4 brings A-IFRS much closer to IFRS, there remain a number of areas where Australian amendments to IFRS exist. These include:

- the mandating of the 'area of interest approach' to exploration and evaluation (including modifications to the recognition and impairment requirements) under AASB 6 *Exploration for and Evaluation of Mineral Resources*
- the additional guidance on materiality in AASB 1031 *Materiality*
- additional Australian Interpretations, particularly those on non-Australian specific topics
- related party disclosures, particularly by disclosing entities
- introductory paragraphs of IFRS Standards are not replicated in A-IFRS
- remaining Australian-specific disclosures and terminology differences.

We are hopeful that the AASB will address these and other remaining differences between A-IFRS and IFRS in a timely manner, so that Australia can maximise the benefits of adopting the IFRS reporting framework.

Key considerations arising from AASB 2007-4

The following key considerations need to be addressed by entities:

Considering early adoption

- is it likely that our Australian competitors and peer group will early adopt?
- will the removal of Australian-specific disclosures substantially reduce the length of the financial report?
- have we considered the impact of all of the requirements, so that we can early adopt the entire Amending Standard (as piecemeal adoption is not permitted)?
- can we justify any voluntary changes in accounting policy?
- for entities reporting under the *Corporations Act 2001*, have the necessary directors' resolutions been prepared and passed?
- have appropriate disclosures in relation to early adoption been drafted to meet the requirements under AASB 108?
- have the requirements of other Standards and Interpretations that may be early adopted also been considered, in particular AASB 7 *Financial Instruments: Disclosures* and revised AASB 101 *Presentation of Financial Statements*?

Changing accounting policies

- are any of the new accounting policy choices attractive?
- do our global competitors and peer group commonly adopt a choice now being introduced into A-IFRS?
- what are the key reasons for proposing to change our accounting policies?
- have we considered the impacts of possible future Accounting Standard changes that may affect the accounting policy decision?
- has any decision to change accounting policies been appropriately documented and approved?
- is sufficient information available to retrospectively apply any change in accounting policy?
- will changes in accounting policies affect key performance measures and ratios, borrowing covenants and similar areas?

Other considerations

- do the changes to the types and definitions of 'financial statements' have any impact on our reporting requirements?
- how are changes in accounting requirements such as those promulgated by AASB 2007-4 tracked to ensure that the appropriate version of each relevant Standard is applied by the entity at each reporting period?

Feedback and assistance

We welcome your feedback on the matters covered in this *Accounting alert* – please email your comments to accounting_alerts@deloitte.com.au.

For assistance in applying the requirements outlined to your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on **+61 (0) 3 9208 7490**, or by email to bruporter@deloitte.com.au.

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Appendix A – Summary of standards impacted by AASB 2007-4

		Types of amendments made			
		Recognition and measurement	**Presentation and disclosure**	**IASB editorial amendments**	**Consequential or minor changes**
AASB 1	*First-Time Adoption of Australian Equivalents to International Financial Reporting Standards*	✓	✓	✓	✓
AASB 2	*Share-based Payment*			✓	
AASB 3	*Business Combinations*			✓	
AASB 4	*Insurance Contracts*			✓	
AASB 5	*Non-Current Assets Held for Sale and Discontinued Operations*			✓	✓
AASB 6	*Exploration for and Evaluation of Mineral Resources*			✓	
AASB 7	*Financial Instruments: Disclosures*			✓	
AASB 102	*Inventories*			✓	
AASB 107	*Cash Flow Statements*		✓	✓	✓
AASB 108	*Accounting Policies, Changes in Accounting Estimates and Errors*			✓	
AASB 110	*Events After the Balance Sheet Date*			✓	
AASB 112	*Income Taxes*		✓	✓	✓
AASB 114	*Segment Reporting*		✓	✓	
AASB 116	*Property, Plant and Equipment*			✓	✓
AASB 117	*Leases*			✓	
AASB 118	*Revenue*			✓	
AASB 119	*Employee Benefits*	✓	✓	✓	✓
AASB 120	*Accounting for Government Grants and Disclosure of Government Assistance*	✓	✓		
AASB 121	*The Effects of Changes in Foreign Exchange Rates*		✓		
AASB 127	*Consolidated and Separate Financial Statements*	✓	✓	✓	
AASB 128	*Investments in Associates*	✓	✓		✓
AASB 129	*Financial Reporting in Hyperinflationary Economies*			✓	
AASB 130	*Disclosure in the Financial Statements of Banks and Similar Financial Institutions*		✓		✓
AASB 131	*Interests in Joint Ventures*	✓	✓		✓
AASB 132	*Financial Instruments: Disclosure and Presentation*		✓	✓	✓
AASB 132	*Financial Instruments: Presentation*			✓	
AASB 133	*Earnings per Share*		✓	✓	✓
AASB 134	*Interim Financial Reporting*		✓	✓	
AASB 136	*Impairment of Assets*			✓	
AASB 137	*Provisions, Contingent Liabilities and Contingent Assets*			✓	
AASB 138	*Intangible Assets*			✓	
AASB 139	*Financial Instruments: Recognition and Measurement*			✓	
AASB 141	*Agriculture*		✓		
AASB 1023	*General Insurance Contracts*			✓	
AASB 1038	*Life Insurance Contracts*		✓	✓	

Appendix B – Checklist of amendments to recognition, measurement, presentation and disclosure requirements[1]

Scope, application and definitional changes

Reference	Impact
AASB 114.16	Inclusion of proportionately consolidated amounts in the definitions of 'segment revenue', 'segment expense', 'segment asset' and 'segment liabilities' *(whilst the amendments to these definitions do not impact the disclosure requirements of AASB 114 in themselves, the inclusion of proportionately consolidated information in the amounts disclosed will alter the segment disclosures made and in some cases may alter the identification of reportable segments)*
AASB 127.4 AASB 128.2 AASB 131.3 AASB 1023.19.1 AASB 1038.20.1	Amendment to the definition of 'separate financial statements' to incorporate a reference to "an investor in an associate or a venturer in a jointly controlled entity"
AASB 127.10	New exemption from the requirement to present consolidated financial statements, applicable in some circumstances
AASB 127.Aus10.1	Requirement for an ultimate Australian parent entity to present consolidated financial statements in some circumstances
AASB 128.4	The various 'types' of financial statements
AASB 128.13(b)	New exemption from the requirement to present equity accounted information, where the entity qualifies for the new exemption in AASB 127
AASB 128.Aus14.1	This paragraph has been deleted, meaning that entities that qualify for the exemption from equity accounting in AASB 128.13 are no longer automatically required to measure their investments in relevant subsidiaries at cost or in accordance with AASB 139
AASB 131.2(b)	New exemption from the requirement to present equity accounted or proportionately consolidated information, where the entity qualifies for the new exemption in AASB 127
AASB 131.77	Newly introduced definition of "proportionate consolidation"

Accounting policy options introduced

Reference	New choice
AASB 107.19	Presentation of cash flow statement using the 'indirect method'
AASB 107.34	Allow dividends paid to be classified as an operating cash flow
AASB 120.23	Allow government grants in the form of transfers of non-monetary assets to be recognised at nominal amount
AASB 120.24	Allow government grants related to assets to be presented as a deduction from the carrying amount of the asset
AASB 120.29	Allow government grants related to income to be deducted in reporting the related expense
AASB 131.30	Allow interests in jointly controlled entities to be recognised using proportionate consolidation

Australian-specific disclosures removed

Reference	Disclosure removed
Accounting policies	
AASB 134.Aus27.1-2	Financial effect and nature of a change in accounting policy made in the final interim period in the annual financial report
Agriculture	
AASB 141.Aus43.1	Nature and classification of biological assets, an estimate or relevant indication of their physical quantity and separate disclosure of biological assets subject to a lease arrangement
AASB 141.Aus49.1	Biological assets for which the entity's use or capacity to sell is subject to restrictions imposed by regulations or other external requirements that have a significant impact on their total fair value less point-of-sale costs
Associates	
AASB 131.Aus37.1	Details of significant associates (name, principle activities, ownership interest, etc) Investor's share of associate's profit and loss before income tax and income tax expense Details of impairment losses and reversals related to associates Details of the investor's share of associates' capital commitments and other expenditure commitments
Banks and similar financial institutions *(note: as AASB 130 is superseded by AASB 7 with effect from annual reporting periods beginning on or after 1 January 2007, these deletions will only apply where AASB 2007-4 is adopted early)*	
AASB 130.Aus17.1-2	Analysis of interest income and interest expense
AASB 130.Aus30.1	Specification of the classes of assets and liabilities for which a maturity analysis must be provided
AASB 130.Aus49.1	Carrying amounts and impairment losses in relation to restructured loans
AASB 130.Aus49.2	Details about assets acquired through the enforcement of security and income related to those assets
AASB 130.Aus55.1-2	Details about the nature and extent of fiduciary activities undertaken

1 Note that this summary does not include details of amendments that are editorial in nature, consequential on another amendment, or which remove Australian guidance.

Reference	Disclosure removed
Defined benefit plans	
AASB 119.Aus121.1	Surplus or deficit measured in accordance with AAS 25 Financial Reporting by Superannuation Funds Current contribution recommendations Details of funding method Economic assumptions used to make funding recommendations
AASB 119.Aus121.2	Details of the nature of any recognised asset or liability, including any legal liability to make up a deficit or the manner in which the employer may benefit from the surplus
Earnings per share	
AASB 133.Aus63.1-5	Additional earnings per share calculation in the event of a major capital restructuring
AASB 133.Aus70.1	Number of converted, lapsed or cancelled ordinary shares included in the calculation of diluted earnings per share
Financial instruments *(note: as the following disclosure requirement is superseded by AASB 7 with effect from annual reporting periods beginning on or after 1 January 2007, the following deletions will only apply where AASB 2007-4 is adopted early)*	
AASB 132.Aus94.1	Details of credit standby arrangements Summary of used and unused loan facilities and the extent the facility can be continued or extended
Income taxes	
AASB 112.Aus80.1	Reasons why the presentation of exchanges differences on deferred foreign tax liabilities or assets as deferred tax expense (income) is considered to be the most useful to financial report users
Interim financial reporting	
AASB 134.Aus16.1	Financial effect of material subsequent events
AASB 134.Aus16.2	Dividends recognised as distributions and dividends proposed or declared but not recognised as a distribution at reporting date Cumulative preference share dividends not recognised
AASB 134.Aus16.3	Explicit statement that the interim financial report should be read in conjunction with the most recent annual financial report
AASB 134.Aus16.4	Clear labelling of condensed financial statements and the absence of notes that would normally be included in an annual financial report
AASB 134.Aus18.1	Requirement to present additional voluntary disclosures in a manner consistent with applicable Accounting Standards
Joint ventures	
AASB 131.Aus57.1[2]	Details about jointly controlled operations and jointly controlled assets (name, principal activity, percentage interest in output, aggregate amount employed in ventures by asset category)
AASB 131.Aus57.2[2]	Fair value of jointly controlled entities where a published price quotation exists Summarised financial information, including aggregates of current assets, long-term assets, current liabilities and long-term liabilities Reporting date or reporting period, where different to the venturer's, and the reason for the difference Nature and extent of restrictions on the ability of jointly controlled entities to transfer funds to the venturer or repay loans and advances Unrecognised share of losses Statement that venturer is not applying equity accounting as permitted by the exemptions Summarised financial information of jointly controlled entities not accounted for using the equity method
AASB 131.Aus57.3[2]	Details about jointly controlled entities (name, principal activities, country of incorporation or residence, ownership interest, voting power, interest in the venturer etc) Venturer's share of jointly controlled entities' profit and loss before income tax and income tax expense Details of impairment losses and reversals related to jointly controlled entities Venturer's share of jointly controlled entities' non-capital expenditure commitments
AASB 131.Aus57.4[2]	Venturer's share of jointly controlled entities' profit and loss Carrying amount of interests in jointly controlled entities Venturer's share of discontinued operations of jointly controlled entities
AASB 131.Aus57.5[2]	Venturer's share of changes recognised directly in equity of its jointly controlled entities
Presentation currency	
AASB 121.Aus53.1[3]	Reason and justification for not using Australian dollars as the presentation currency
Subsidiaries	
AASB 127.Aus40.1[4]	Identity of the parent within the group Identity of the ultimate Australian parent Identity of the ultimate parent Reasons why control exists where the parent does not hold, directly or indirectly, more than half the voting power
AASB 127.Aus42.1	Details about significant subsidiaries where a group of entities does not prepare separate financial statements for the parent *(note: this disclosure will be retained for not-for-profit public sector entities, see below)*

2 Some of these disclosures will continue to be required as deleted disclosure paragraphs in AASB 131 are to be reinstated (see 'New and amended disclosures' below).

3 This disclosure will continue to be required unless AASB 101 *Presentation of Financial Statements*, as revised and effective for annual reporting periods beginning on or after 1 January 2007, is early adopted. A similar disclosure is specified by AASB 101.Aus46.1 (as currently operative), but has been deleted in the revised version of the Accounting Standard.

4 While AASB 2007-4 removes these disclosures from AASB 127 *Consolidated and Separate Financial Statements*, it does not similarly propose amending AASB 124 *Related Party Disclosures* to remove similar disclosure required of the identification of parent entities. Accordingly, the disclosure of the identities of parent entities will continue to be required.

New and amended disclosures

Topic	New or amended disclosure requirement
AASB 107.Aus20.1	When an entity uses the direct method, a reconciliation of cash flows arising from operating activities to profit or loss shall be disclosed in the financial report.
AASB 107.Aus20.2	Notwithstanding paragraph Aus20.1, not for profit entities that use the direct method and that highlight the net cost of services in their income statement for the reporting period shall disclose in the financial report a reconciliation of cash flows arising from operating activities to net cost of services as reported in the income statement.
AASB 107.50(b)	The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation *(this disclosure is encouraged but is not mandatory)*
AASB 112.81(c)	An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms: (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed
AASB 127.41	When separate financial statements are prepared for a parent that, in accordance with paragraphs 10 and Aus10.1 elects not to prepare consolidated financial statements, those separate financial statements shall disclose: (a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable; (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and (c) a description of the method used to account for the investments listed under (b).
AASB 127.42	When a parent (other than a parent covered by paragraph 41), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose: (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law; (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and (c) a description of the method used to account for the investments listed under (b); and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard, AASB 128 and AASB 131 to which they relate.
AASB 127.Aus42.1	In respect of not-for-profit public sector entities, where a group of entities is a reporting entity, but separate financial statements for the parent are not prepared, the notes to the consolidated financial statements shall disclose a list of significant subsidiaries, including: (a) the name; (b) country of incorporation or residence (where other than Australia); and (c) proportion of ownership interest and, if different, proportion of voting power held. *(this is an amended requirement which is now only applicable to not-for-profit entities)*
AASB 131.56	A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long term assets, current liabilities, long term liabilities, income and expenses related to its interests in joint ventures.
AASB 131.57	A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.

Appendix C – Example disclosures under AASB 108

Overview of disclosure requirements under AASB 108

Regardless of whether an early chooses to early adopt AASB 2007-4 early or not, AASB 108 will require disclosure as:

- entities that do not early adopt AASB 2007-4 are still required to provide disclosure about its impacts
- entities that early adopt AASB 2007-4 are required to provide disclosure around changes in accounting policies – including separate disclosure in the Statement of Changes in Equity (SOCIE) or Statement of Recognised Income and Expense (SORIE).

Disclosure by entities that do not early adopt the Amending Standard

AASB 108 requires entities which do not early adopt the new Accounting Standard to make certain disclosures in their financial report. The following illustrative wording may be used as a general guide to the disclosure that may be required; however, because of the quantum of changes implemented by AASB 2007-4, the wording will need to be adapted to suit each entity's individual circumstances:

The AASB released Accounting Standard AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* in May 2007. AASB 2007-4 makes amendments to a number of Australian Accounting Standards to introduce various accounting policy options, delete various disclosures presently required, and to make a number of editorial amendments. AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007 and must therefore be applied by the [Company/Group] in its financial statements for the year ending on [30 June 2008].

Whilst a large number of Accounting Standards are amended by AASB 2007-4, key accounting policy options introduced by AASB 2007-4 relate to:
- the measurement and presentation of government grants
- the accounting for jointly controlled entities using the proportionate consolidation method
- the presentation of the cash flow statement.

[Where the entity does not intend to change an existing accounting policy:]

The consolidated entity does not intend to change any of its current accounting policies on adoption of AASB 2007-4; accordingly, there will no financial impact to these financial statements. However, in the [Company's/Group's] financial statements for the year ended [30 June 2008], certain information may no longer be disclosed, or may be disclosed in an alternative manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.

[or, where the entity has not made a decision on which accounting policy options might be adopted at the time of signing the financial report:]

At the date of preparation of this financial report, the directors of the Company have not decided on which optional accounting treatments may be adopted on the initial application of AASB 2007-4. Accordingly, the directors are continuing to evaluate the potential financial impact of AASB 2007-4 on the financial statements. However, in the [Company's/Group's] financial statements for the year ended [30 June 2008], certain information may no longer be disclosed, or may be disclosed in an alternative manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.

[or, where the entity intends to change an existing accounting policy, for example moving from equity accounting to proportionate consolidation for jointly controlled entities]

On adoption of AASB 2007-4, the [Company/Group] intends to change its accounting policy for accounting for its interests in jointly controlled entities from equity accounting to proportionate consolidation. Proportionate consolidation is a method of accounting whereby the Group's share of each of the assets, liabilities, income and expenses of its jointly controlled entities is reported on a line-by-line basis in the consolidated entity's financial statements.

The [Company/Group] will be required to restate its financial position as though it had always accounted for its jointly controlled entities using proportionate consolidation. However, because the [Company/Group] currently accounts for these interests using the equity method, there will be no impact on the reported consolidated net assets or profit and loss of the Group, although the presentation of amounts on individual line items in the financial statements will be different. In addition, the [Company's/Group's] financial statements for the year ended [30 June 2008] may no longer disclose certain information, or may disclose information in an alternate manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.

[Where there is an impact on reported net assets or profit and loss, the following paragraph should be substituted for the one immediately above:

The [Company/Group] will be required to restate its financial position as though it had always accounted for its jointly controlled entities using proportionate consolidation. As a consequence, at [insert date of commencement of the comparative year, e.g. 1 July 2006], net assets of the consolidated entity will [increase/decrease] by $[xx]. Under proportionate consolidation, net profit for the current reporting period will be [higher/lower] by $[xx] and net assets [higher/lower] by $[xx] compared to the reported results. In addition, the [Company's/Group's] financial statements for the year ended [30 June 2008] may no longer disclose certain information, or may disclose information in an alternate manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.]

Disclosure by entities that early adopt the Amending Standard

AASB 108 requires entities that have early adopted the new Accounting Standard to make certain disclosures in their financial report. The following illustrative wording may be used as a guide to the disclosure required for a voluntary change in accounting policy:

The directors of the company have elected under s.334(5) of the *Corporations Act 2001* to apply AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* and the amendments specified by that Accounting Standard to various Accounting Standards, even though the Standard is not required to be applied until reporting periods beginning on or after 1 July 2007.

As permitted under the amendments introduced by AASB 2007-4, the Group has changed its accounting policy for accounting for its interests in jointly controlled entities from equity accounting to proportionate consolidation. Proportionate consolidation is a method of accounting whereby the Group's share of each of the assets, liabilities, income and expenses of its jointly controlled entities is reported on a line-by-line basis in the consolidated entity's financial statements. The Group considers that proportionate consolidation provides users of the financial report reliable and more relevant information than equity accounting for the following reasons: [detail reasons].

The change in accounting policy affects only the consolidated financial statements. Under proportionate consolidation, the opening balance sheet of the Group [increased/decreased] by $[xx]. Further, the following financial statement line items of the Group are affected by the change in accounting policy:

	Adjustment	
	Current year **$'000**	Comparative year **$'000**
Income statement		
Share of jointly controlled entity's profit	$[xx]	$[xx]
Revenue from sales of goods	$[xx]	$[xx]
Cost of goods sold	$[xx]	$[xx]
[describe]	$[xx]	$[xx]
Balance sheet		
Equity accounted investments	$[xx]	$[xx]
Property, plant and equipment	$[xx]	$[xx]
Payables	$[xx]	$[xx]
Retained earnings	$[xx]	$[xx]
[describe]	$[xx]	$[xx]
Statement of changes in equity		
Retained earnings	$[xx]	$[xx]
[describe]	$[xx]	$[xx]
Cash flow statement		
Receipts from customers	$[xx]	$[xx]
Payments from suppliers	$[xx]	$[xx]
[describe]	$[xx]	$[xx]

The impact of the change in accounting policy on the current and comparative basic earnings per share is an [increase/decrease] of [x.xx] cents per share (200[x]: [x.xx] cents per share) compared to had the previous accounting policy continued to be applied. The impact of the change in accounting policy on the current and comparative diluted earnings per share is an [increase/decrease] of [x.xx] cents per share (200[x]: [x.xx] cents per share) compared to had the previous accounting policy continued to be applied

Entities should note that separate disclosure of the impacts of any changes in accounting policies in the statement of changes in equity/statement of recognised income and expense is also required.