

# Accounting alert

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## AASB issues 2 more omnibus standards

In late December 2004, the Australian Accounting Standards Board (AASB) released two omnibus standards AASB 2004-2 and AASB 2004-3 both titled 'Amendments to Australian Accounting Standards'.

This *Accounting Alert* provides an overview of the more significant changes resulting from these Standards.

### Overview

The AASB agreed in December 2004 that its general policy to consequential amendments to Australian Equivalents to IFRS (A-IFRS) is to make those amendments through 'omnibus standards' numbered in a series using the year of issue and a generic title.

AASB 2004-2 reflects amendments arising as a consequence of a review by the AASB of the suite of A-IFRS released in July 2004. The Standard makes consequential amendments to the following Australian Accounting Standards, the more significant of which are discussed below:

- AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'
- AASB 121 'The Effects of Changes in Foreign Exchange Rates'
- AASB 131 'Interests in Joint Ventures'
- AASB 134 'Interim Financial Reporting'
- AASB 139 'Financial Instruments: Recognition and Measurement'
- AASB 141 'Agriculture'.

*Early adoption of AASB 2004-2 is not permitted*

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. Early adoption of this Standard is not permitted.

AASB 2004-3 was issued together with the release of a revised AASB 119 'Employee Benefits' to make consequential amendments arising from the revision to the following Australian Accounting Standards:

- AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'
- AASB 101 'Presentation of Financial Statements'
- AASB 124 'Related Party Disclosures'.

*The application date of AASB 2004-3 is linked to the application date of revised AASB 119*

AASB 2004-3 is applicable to annual reporting periods beginning on or after 1 January 2006. If an entity early adopts revised AASB 119 for annual reporting periods beginning on or after 1 January 2005, this Standard should also be applied for that earlier period.

### **Gains and losses on initial recognition of financial assets and financial liabilities**

AASB 139 requires financial assets and financial liabilities to be recorded at fair value on initial recognition. The application guidance to AASB 139, AG 76, states that the best evidence of the fair value of a financial instrument at initial recognition is the transaction price. However, where a verifiable fair value can be established from other current market transactions in the same instrument, or through a valuation technique whose variables only include data from observable markets, that fair value should be used with any difference between the transaction price and the fair value at initial recognition being recognised as a gain or loss. AASB 2004-2 amends AASB 139 by including additional guidance on how to account for a financial instrument where no gain or loss was recognised on initial recognition as there was no verifiable fair value.

Paragraph AG76A states that where application of the guidance results in no gain or loss being recognised on the initial recognition of the financial instrument, a subsequent gain or loss shall be recognised only to the extent that it arises from a change in a factor that market participants would consider in setting a price.

Full retrospective application of AASB 139 may be difficult and expensive and may require subjective assumptions about what was observable and what was not. In addition, this would result in a divergence from US GAAP, where a similar requirement was only applicable to transactions occurring after 25 October 2002. To address these concerns, the International Accounting Standards Board (and similarly the AASB) has made available transitional relief on adoption of AASB 139 as part of AASB 1.

*Entities may apply the requirements in the last sentence of AASB 139 paragraph AG76, and paragraph AG76A, prospectively*

The voluntary exemption in AASB 1 permits entities to apply the requirements in the application guidance to AASB 139 relating to determining the fair value of financial instruments and the subsequent treatment of gains and losses (last sentence of paragraph AG76 and paragraph AG76A) either:

- prospectively to transactions entered into after 25 October 2002, to align the relief with US GAAP requirements
- prospectively to transactions entered into after 1 January 2004.

### **Retrospective recognition of actuarial gains and losses**

AASB 2004-3 permits entities adopting the 'corridor' approach to accounting for their defined benefit plans as permitted by revised AASB 119 to elect to recognise all cumulative actuarial gains and losses at the date of transition, despite applying the 'corridor' approach thereafter. Full retrospective application of the revised Standard would otherwise require an entity to split the cumulative actuarial gains and losses from the inception of the plans until the date of transition into recognised and unrecognised portions.

*Entities applying the 'corridor' approach may elect to recognise all cumulative actuarial gains and losses at the date of transition*

### **Presentation of financial reports**

AASB 2004-2 amends AASB 121 by inserting a paragraph to specify that, as the Corporations Act 2001 allows only one profit amount for any reporting period, entities are only permitted to present a financial report which purports to be drawn up in accordance with the Corporations Act 2001 in one presentation currency. This amendment was made to avoid the potential inconsistency between the Standard, which allows an entity to prepare multiple financial reports for a reporting period in different currencies, thereby presenting more than one profit number, and the Corporations Act 2001, which permits only one profit number.

*Amendment made to prevent potential inconsistency between AASB 121 and the Corporations Act 2001*

### **Application of the equity method**

AASB 131, scope paragraph 2, permits entities meeting certain conditions not to apply the equity method in accounting for a jointly controlled entity when certain conditions are met.

AASB 2004-2 amends this scope paragraph to clarify that a venturer only needs to meet one of the two conditions specified by the Standard in order to be exempt from applying the equity method to a jointly controlled entity.

*Ventures satisfying either condition are exempt from applying the equity method to that jointly controlled entity*

*Disclosing entities need present only consolidated half-year financial reports to satisfy their half-year reporting obligations under the Corporations Act 2001*

*Clarification of the contents of a statement of recognised income and expense and illustrative example thereof provided*

### Requirement for parent entities to prepare separate interim financial reports

The AASB presumed that the effect of the CLERP 9 amendments to the Corporations Act 2001 was to require half-year financial statements for both the parent entity and the consolidated group and as a result, this requirement was included in AASB 134.

After consultation with the Treasury, the AASB concluded that entities subject to section 303 of the Corporations Act 2001 are not required to include parent entity financial statements with their consolidated half-year reports. The additional paragraph inserted by the AASB into AASB 134 implying that such financial statements were necessary has been removed through AASB 2004-2.

As a result, an entity is neither prohibited nor required to present the parent entity's separate financial statements in its consolidated half-year financial report.

### Statement of recognised income and expense

AASB 2004-3 amends AASB 101 and the accompanying Australian Implementation Guidance by introducing the 'statement of recognised income and expense', and providing an illustrative example thereof.

Where an entity elects to present only certain items on the face of the statement of changes in equity, as identified in AASB 101 (as amended by AASB 2004-3), with the balance of the disclosure items being included in the notes to the financial statements, the statement should be referred to as a 'Statement of recognised income and expense' and not a 'Statement of changes in equity'.

### Feedback and assistance

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