BDO

FINANCIAL REPORTING STANDARDS UPDATE

A summary of changes to financial reporting requirements applicable for financial years ending 31 December 2014

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INTRODUCTION TO BDO

BDO is the fifth largest full service professional services firm in Australia and globally with offices in New South Wales, Northern Territory, Queensland, South Australia, Tasmania, Victoria and Western Australia as well as 1,264 offices around the world, our national practice has 160 partners and over 1,200 staff.

56,389 PEOPLE

1,264 OFFICES

144 COUNTRIES

CURRENT AS AT NOVEMBER 2013

BDO has deep expertise in multiple specialist services specifically audits, taxation and advisory. The depth of our team provides reliability, technical expertise and global reach to match any other service provider. Our foundation of building close relationships with our clients allows us to be highly responsive and nimble to adapt to the ever changing needs of our clients.

We have a unique blend of services, including corporate and international taxation, corporate finance, business consulting, internal audit, risk advisory, specialist IT assurance services, forensic as well as the more traditional audit services.

SECTION A: ACCOUNTING STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE FIRST TIME AT 31 DECEMBER 2014

THE TABLE BELOW INCLUDES A LIST OF ALL ACCOUNTING STANDARDS, AMENDING STANDARDS AND INTERPRETATIONS THAT APPLY FOR THE FIRST TIME TO ENTITIES WITH YEARS ENDING 31 DECEMBER 2014.

AASB NO.	TITLE	ISSUE DATE	OPERATIVE DATE (ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER)	REFERENCE
OTHER STANDARDS				
2011 – 4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	July 2011	1 July 2013	1
2012 – 3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132]	June 2012	1 Jan 2014	2
2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	June 2013	1 Jan 2014	3
2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	July 2013	1 Jan 2014	4
2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AAB 132, AASB 134 & AASB 139]	Aug 2013	1 Jan 2014	5
2013 – 7	Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders [AASB 1038]	Oct 2013	1 Jan 2014	6
2014-1	Amendments to Australian Accounting Standards – Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles	June 2014	1 July 2014**	7
INTERPRETATIONS				
21	Levies	June 2013	1 Jan 2014	8

**Applies to certain transactions occurring on or after 1 July 2014, even though the annual period commences before 1 July 2014, e.g. Annual periods commencing 1 January 2014

AASB NO.	TITLE	ISSUE DATE	OPERATIVE DATE (ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER)	REFERENCE
CONSOLIDATION AND JOINT ARRANGEMENT ACCOUNTING BY NOT-FOR-PROFIT ENTITIES				
10	Consolidated Financial Statements	Aug 2011	1 Jan 2014*	9.1
11	Joint Arrangements	Aug 2011	1 Jan 2014*	9.2
12	Disclosure of Interests in Other Entities	Aug 2011	1 Jan 2014*	9.3
127	Separate Financial Statements	Aug 2011	1 Jan 2014*	9.4
128	Investments in Associates and Joint Ventures	Aug 2011	1 Jan 2014*	9.5
2011 – 7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]	Aug 2011	1 Jan 2013*	9
2013 – 8	Amendments to Australian Accounting Standards – Australian Implementation guidance for Not-for-Profit Entities – Control and Structured Entities [AASB 10, AASB 12 & AASB 1049]	Oct 2013	1 Jan 2014	9.1/9.3
REDUCED DISCLOSURE REQUIREMENTS				
1053	Application of Tiers of Australian Accounting Standards	June 2010	1 July 2013	10/10.1

*1 January 2014 for not-for-profit entities. Effective 1 January 2013 for for-profit entities

AASB NO.	TITLE	ISSUE DATE	OPERATIVE DATE (ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER)	REFERENCE
2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]	June 2010	1 July 2013	10
2011 – 2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054]	May 2011	1 July 2013	10
2011 – 6	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, AASB 128 & AASB 131]	July 2011	1 July 2013	10
2011 – 11	Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	Sep 2011	1 July 2013	10
2012 – 1	Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements [AASB 3, AASB 7, AASB 13, AASB 140 & AASB 141]	March 2012	1 July 2013	10
2012 – 7	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 7, AASB 12, AASB 101 & AASB 127]	Sep 2012	1 July 2013	10
2012-11	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments [AASB 1, AASB 2, AASB 8, AASB 10, AASB 107, AASB 128, AASB 133, AASB 134 & AASB 2011-4]	Dec 2012	1 July 2013	10
2013 – 6	Amendments to AASB 136 arising from Reduced Disclosure Requirements	Sep 2013	1 Jan 2014	10

1. AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

KEY MESSAGES

- Disclosing entities that are trusts can delete all detailed individual key management personnel disclosures in 31 December 2014 financial statements.
- In 31 December 2014 financial statements, disclosing entities that are **companies** must:
  - Move detailed individual key management personnel disclosures from the notes to the audited remuneration report (comparatives not required for information moved from notes), and
  - Retain summarised key management personnel disclosures in notes to financial statements (as required by AASB 124 *Related Party Disclosures*).

This standard deletes the additional Australian requirements for disclosures about individual key management personnel from AASB 124 *Related Party Disclosures*. The Australian Accounting Standards Board deleted these additional disclosures because they are not required by IFRSs, and they believed these additional disclosures are more in the nature of corporate governance disclosures, and therefore better dealt with by the *Corporations Act 2001*.

Disclosing entities – Companies

Regulation 2M.3.03(1) of the *Corporations Act* was issued in July 2013 and now requires companies that are disclosing entities to include disclosures about reconciliations of individual key management personnel option and share holdings, loan transactions, and other transactions and balances, in the audited remuneration report. Your December 2014 annual report will include these disclosures as part of your audited remuneration report, rather than in the notes to your financial statements.

Disclosing entities – Trusts

The *Corporations Act* does not require an audited remuneration report for trusts that are disclosing entities. Further, no changes have been made to the *Corporations Act* as a result of AASB 2011-4 to require individual key management personnel disclosures in your financial statements. Your 31 December 2014 annual report will therefore not include any individual key management personnel disclosures. However, you will still be required to discuss key management personnel transactions and balances in the notes to your financial statements under the general related party disclosures included in AASB 124 *Related Party Disclosures*.

2. AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*

Mainly applicable to banks and financial institutions, these amendments clarify the meaning of 'currently has a legal right of set-off' when applying the offsetting criteria for financial assets and financial liabilities in AASB 132 *Financial Instruments: Presentation*. The right of set-off:

- Must not be contingent on a future event, and
- Must be legally enforceable in **all** the following circumstances:
  - Normal course of business
  - Event of default
  - Event of insolvency and bankruptcy, of the entities and all of its counterparties.

The amendments also clarify that some gross settlement systems may be considered equivalent to net settlement.

3. AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

KEY MESSAGES

- If you have an impairment loss and recoverable amount is determined using fair value less costs of disposal, ensure you include the additional disclosures outlined below.

The amendments included in AASB 2013-3 clarify that you are only required to disclose the recoverable amount of a cash-generating unit (CGU) that has significant amounts of goodwill and intangibles with indefinite useful lives **when there has been an impairment loss**.

When there has been an impairment loss and the recoverable amount is based on fair value less costs of disposal, the amendments also require additional disclosures about the level in the fair value hierarchy, including for level 2 and 3:

- A description of the valuation technique, changes in valuation technique and reasons for changes
- Description of each key assumption used
- Discount rate used.

These disclosures were added because the AASB 13 *Fair Value Measurement* disclosures do not apply to assets where recoverable amount is fair value less costs of disposal.

4. AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*

This amendment permits continuation of hedge accounting where a derivative designated as a hedging instrument is novated from one counterparty to a central counterparty as a consequence of laws and regulations.

It is unlikely to apply to Australian companies unless you have subsidiaries in Europe because the change was a result of a new regulation being implemented in Europe which requires certain over the counter derivatives to be cleared centrally through an independent central counterparty.

More information

You can access additional BDO resources by clicking on the relevant links below

Summary of the amendments
IFR Bulletin on Novation of Derivatives and Continuation of Hedge Accounting

5. AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*

KEY MESSAGES

- Investment entities will need to deconsolidate investments in subsidiaries.
- Investments in subsidiaries of investment entities must be measured at fair value through profit or loss.

These amendments vary the usual consolidation principles so that investment entities do not present consolidated financial statements, but must instead measure investments in subsidiaries at fair value through profit or loss, in accordance with AASB 9 *Financial Instruments* or AASB 139 *Financial Instruments: Recognition and Measurement*. However, the parent entity of an investment entity will consolidate all subsidiaries, including the investment entity and its controlled entities, unless that parent entity itself is an investment entity.

Investment entities are entities that meet **all** of the following criteria:

- They obtain funds from one or more investors for the purpose of providing those investors with investment management services
- They commit to investors that their business purpose is to invest funds solely for returns from capital appreciation, investment income or both, and
- They measure and evaluate the performance of substantially all of their investments on a fair value basis.

In practical terms, investment entities usually have more than one investment, more than one investor, investors are not related parties and ownership interests are in the form of equity or other similar interests (e.g. units). Entities that do not have all these characteristics can still be an investment entity but they will need to disclose the reason.

In accordance with AASB 12 *Disclosure of Interests in Other Entities*, an investment entity will need to disclose information about the significant judgements and assumptions it made to conclude that it is an investment entity.

Property investors will often not be considered investment entities because they fail the business purpose test of investing funds solely for capital appreciation, investment income or both (i.e. they are also deriving income from providing operational services for managing the property). Alternatively they often fail the 'exit strategy' test which results in them not being classed as investment entities.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News articles

Investment Entity Consolidation exemption finally approved in Australia (September 2013)

New Investment Entities Standard (November 2012)

Summary of the amendments

IFR Bulletin on Investment Entities

6. AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders*

This standard removes consolidation requirements from AASB 1038 *Life Insurance Contracts* which leaves AASB10 *Consolidated Financial Statements* as the sole source of consolidation guidance for life insurers.

7. AASB 2014-1 *Amendments to Australian Accounting Standards* (Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles)

KEY MESSAGES

- Minor amendments/clarifications to standards.
- Amendments to AASB 2 *Share-based Payment* and AASB 3 *Business Combinations* apply prospectively to transactions occurring on or after 1 July 2014 even though reporting period commences 1 January 2014.
- Change to AASB 2 *Share-based Payment* clarifies that performance targets for share-based payments based on metrics of another group entity (rather than the issuing entity) will in future be treated as vesting conditions.
- Clarification to AASB 3 *Business Combinations* not expected to affect current practice.

AASB 2014-1 clarifies certain issues in AASB 2 *Share-based Payment* and AASB 3 *Business Combinations,* and applies prospectively from 1 July 2014 (drop dead date). The other amendments in AASB 2014-1 apply for annual periods beginning on or after 1 July 2014. We do not expect any changes to your current or future financial statements because these clarifications are generally not expected to change current practice, except that performance targets for share-based payments based on metrics of **another group entity** (rather than the issuing entity) will in future be treated as vesting conditions, instead of previous treatment as non-vesting conditions.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article

Annual Improvements to IFRSs for 2010-2012 and 2011-2013 Cycles (February 2014)

8. Interpretation *21 Levies*

KEY MESSAGES

- Obtain an understanding of all levies imposed and trigger dates in all jurisdictions that you operate in.
- Ensure liabilities for levies are recognised on trigger dates and not accrued over time, unless they are triggered progressively over time.

Interpretation 21 clarifies the circumstances under which a liability to pay a government imposed levy should be recognised, and whether that liability should be recognised in full at a specific date, or progressively over a period of time. The issue arises where the 'levy' only triggers a liability after a particular hurdle is met. This will be particularly relevant where the entity's reporting date is not the same as the date at which the triggering date of the levy is met. It may therefore be particularly significant for overseas subsidiaries with levy assessment periods differing from financial reporting periods.

Unfortunately it is not clear what level of government this interpretation refers to, and what constitutes a 'levy'. The scope of the interpretation may be significantly wider than we first thought, including 'levies' raised by federal, state, local and municipal levels of government. The term levy may apply to taxes (other than income taxes) i.e. mining taxes, property taxes, payroll taxes, royalties, rates, state rates and quotas.

Example

Mine Ltd has a 31 December 2014 year end.

The government imposes a levy on all mines operating on 30 June each year.

The levy is calculated as 5% of production revenues for the twelve months preceding the 30 June assessment date.

Mine Ltd produced 2 million tonnes for the six months ended 31 December 2014, deriving $200 million in production revenue.

If Mine Ltd closes down on 29 June 2015, it will **not** be liable to pay the levy.

Mine Ltd does not recognise a liability for the mine levy at 31 December 2014 because the trigger event is the fact that it must be operating on 30 June 2015.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article
Interpretation 21 Levies (July 2013)

'One page' summary of the Interpretation
IFRS at a Glance on IFRIC 21

9. Consolidation and joint arrangement accounting by not-for-profit entities (NFPs)

KEY MESSAGES

- NFPs must apply the new suite of consolidation and joint arrangement accounting (and related disclosure) standards for the first time in 31 December 2014 financial statements.
- Guidance to apply the three limbs of the 'control' definition to NFPs is included in Appendix E of *AASB 10 Consolidated Financial Statements.*
- Guidance to determine whether NFPs are 'structured entities' is included in Appendix E of *AASB 12 Disclosure of Interests in Other Entities.*

Not-for-profit entities must apply the new suite of consolidation and joint arrangement accounting (and related disclosure) standards for the first time in 31 December 2014 financial statements. This includes:

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 127 *Separate Financial Statements*
- AASB 128 *Investments in Associates and Joint Ventures*
- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*.

9.1 AASB 10 *Consolidated Financial Statements*

New 'control definition'

An investor controls an investee only if the investor has **all** of the following:

1. Power over the investee (current ability to direct relevant activities)
2. Exposure, or rights, to variable returns from its involvement with the investee
3. The ability to use its power over the investee to affect the amount of the investor's returns.

AASB 10 includes extensive guidance for **for-profit entities** about how to evaluate each of the three limbs above, for example, now requiring entities to assess whether:

- They have de facto control
- Potential voting rights are substantive, and
- They are acting as principal or agent.

Not-for-profit entity guidance on 'control'

The main guidance in AASB 10 is not very helpful when you are assessing control by a NFP, but the additional Australian guidance added in by the Australian Accounting Standards Board (AASB) as Appendix E to AASB 10 may prove useful (*AASB 2013-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*). The table below compares the implementation guidance for NFPs against the principles for for-profit entities as follows:

AASB 10 PRINCIPLES – FOR-PROFIT ENTITIES	IMPLEMENTATION GUIDANCE – NOT-FOR-PROFIT ENTITIES (AASB 2013-8)
Control (Paragraph 11) Obtained by voting rights on shares and contractual arrangements.	**Control (Appendix E, IG4)** Investor need not have a financial investment in the investee. Investor and investee are merely entities that have a relationship in which control of one entity (the investee) by another entity (the investor) may arise.
Power (Paragraph 10) Investor has power over investee when investor has existing rights that give it the current ability to direct the relevant activities (activities that most significantly affect returns).	**Power (Appendix E, IG5)** Investor has power over investee when investor can require investee to deploy its assets or incur liabilities in a way which affects the investee's returns. Example: Providing goods or services to investor or other parties to assist in achieving or furthering investee's objectives.
Power (Paragraph 11) Power arises from voting rights and contractual arrangements. **Power (Paragraph B10)** Consider rights of the investor and other parties with respect to the investee.	**Power (Appendix E, IG6)** Rights from administrative arrangements or statutory provisions can be the source of power. Investee constitutions giving the investor rights to direct operating and financing activities do not necessarily mean that investor has power. Need to consider whether others direct the relevant activities.

AASB 10 PRINCIPLES – FOR-PROFIT ENTITIES	IMPLEMENTATION GUIDANCE – NOT-FOR-PROFIT ENTITIES (AASB 2013-8)
Rights that give investor power (Paragraph B15) Include: • Voting rights • Rights to appoint or remove investee's KMPs who have ability to direct relevant activities • Rights to appoint or remove another entity that directs relevant activities • Rights to direct investee to enter into, or veto, changes to transactions for benefit of investor • Other contractual rights that give holder the right to direct relevant activities.	**Rights that give investor power (Appendix E, IG9)** Additional examples for not-for-profit entities include: • Rights to give policy directions to governing body of investee that enable holder to direct relevant activities • Rights to approve or veto operating and capital budgets relating to relevant activities.
Rights that give investor power (Paragraph B19 and B40) Operations of investee being dependent upon investor is an indicator, but does not necessarily mean, that investor controls an investee. Economic dependence alone does not lead to investor having power over an investee.	**Rights that give investor power (Appendix E, IG11 and IG12)** Government may not have the current ability to direct the relevant activities of entities such as private schools, private hospitals, private aged-care providers and universities that are dependent on government funding were the governing bodies of these entities have the ability to decide whether to accept the funding, and have discretion about how resources are to be deployed. This may be the case even where the grants are subject to specific conditions, such as being for capital construction and operating costs, subject to specified service standards or restrictions on user fees.
Substantive rights (Paragraph B22) To determine whether rights are substantive, we need to consider barriers that prevent the holder from exercising those rights.	**Substantive rights (Appendix E, IG13)** Barriers include political, cultural, social or similar barriers that make it difficult for investor to exercise rights, but rights would still be substantive if holder could choose to exercise them.
Substantive rights (Paragraph B24) To be substantive, rights need to be exercisable when decisions about relevant activities need to be made (currently exercisable).	**Substantive rights (Appendix E, IG14)** Power may be obtained from existing statutory arrangements. Rights specified in substantively enacted legislation would be substantive if they will be able to be exercised when decisions about directing relevant activities need to be made.
Protective rights (Appendix A) Rights that protect the interest of a party without giving power to the party.	**Protective rights (Appendix E, IG15)** Protective rights include rights of government or other entities to protect (not enhance) the interests of government, beneficiaries of an entity, and the public at large.

<table>
<tr><th>AASB 10 PRINCIPLES – FOR-PROFIT ENTITIES</th><th>IMPLEMENTATION GUIDANCE – NOT-FOR-PROFIT ENTITIES (AASB 2013-8)</th></tr>
<tr><td>Protective rights (Paragraph B28)
Examples include, but are not limited to:
• Lender's right to restrict a borrower from undertaking certain activities, e.g. paying dividends
• Right of non-controlling interest to approve capital expenditure above a certain threshold
• Right of a lender to seize assets in case of default.</td><td>Protective rights (Appendix E, IG17)
Additional examples include:
• Rights of a regulator to curtail or close operations for non-compliance with regulations
• Right to remove/appoint members of governing body in certain restricted cases
• Right of government to remove tax deductibility for contributions to a not-for-profit entity if objectives of entity change significantly
• Philanthropic trust providing resources to a charity on condition that net assets are distributed to a similar organisation, undertaking similar activities, if the charity is liquidated.</td></tr>
<tr><td>Variable returns (Paragraph B57(c))
Returns can include combining operating functions with investee to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets to enhance the value of the investor's other assets.</td><td>Variable returns (Appendix E, IG18-19)
Broad scope of nature of returns includes financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives.
Example: Investee providing goods or services to its beneficiaries may affect extent to which investor's social policy objectives are furthered, such as efficiency and effectiveness of delivery of goods or services and changes in the outcomes for beneficiaries.</td></tr>
<tr><td>Link between power and returns (Paragraph 7)
For an investor to have control, they must have the ability to use their power to affect the amount of their returns.</td><td>Link between power and returns (Appendix E, IG20)
Investor could have ability to use power when it can direct investee to work with investor to further the investor's objectives.
However, the existence of congruent objectives alone is not enough for an investor to conclude that it controls an investee.</td></tr>
<tr><td>Agent vs. principal (Paragraph B60 and B61)
Decision maker must consider all of the following to determine whether they are acting as agent or principal, unless a single party has kick-out rights:
• Scope of decision-making authority over investee
• Rights held by other parties
• Remuneration entitlements
• Exposure to variability of returns from other interests it holds in investee.</td><td>Agent vs. principal (Appendix E, IG21-22)
Example 1 (extracted from IG 22):
Charity establishes a trust fund to construct village dams, bores and other water structures in a developing country.
Trustee receives remuneration from the trust commensurate with services provided, plus a performance bonus upon successful completion of the project.
Charity can replace trustee at its discretion.
Trustee is therefore an agent.</td></tr>
</table>

Examples

Appendix E also includes examples to illustrate the above guidance. Although many of these relate to the public sector, there are also some examples for the NFP private sector that illustrate how to apply the NFP guidance in practice. We discussed some of these examples in our *newsletter article*.

Judgement required

You may need to apply judgement when applying this guidance to the specific facts and circumstances of your NFP to determine whether it controls any other entities. As 31 December 2014 will be the first time that you are applying the new 'control' definition, we recommend that you confirm your control assessments with your engagement partner as early as possible because it may involve a significant amount of work to consolidate entities which were previously not consolidated.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article
AASB issues consolidation guidance for not-for-profit entities (November 2013)

Short summary of the standard
IFRS at a Glance on IFRS 10

Detailed publication ccovering the application requirements of the IFRS 10
Need to Know on IFRS 10

9.2 AASB 11 *Joint Arrangements*

KEY MESSAGES

- The AASB has not issued separate NFP guidance for applying AASB 11.
- The same definitions and principles from AASB 10 apply to AASB 11, e.g. meaning of control, relevant activities, etc.
- NFPs must apply the NFP guidance from AASB 10 to determine whether they have joint control (refer Appendix E of *AASB 10 Consolidated Financial Statements).*
- Joint operations are always accounted for according to specific contractual rights and obligations.
- Equity accounting must apply to joint ventures. There is no longer an option to proportionately consolidate joint ventures.
- Joint arrangements through separate vehicles are not automatically joint ventures and need to be assessed for other contractual arrangements and other facts and circumstances to determine whether they should be accounted for as joint operations.

AASB 11 prescribes the accounting where you have 'joint control' over a joint arrangement.

Accounting for joint arrangements depends on the type:
- Joint operations – parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement and account for these according to contractual rights and obligations.
- Joint ventures – structured through a separate vehicle, where parties that have joint control of the arrangement have rights to the net assets of the arrangement and apply equity accounting.

There is no longer an option to proportionately consolidate joint ventures.

A separate vehicle is a separately identifiable financial structure, including legal entities or entities recognised by statute, regardless of whether those entities have a legal personality. Subject to local laws, partnerships, companies, trusts and syndicates will usually be considered to be separate vehicles.

Because the classification of a joint arrangement drives the accounting, it is important to get this right at the outset, and as facts and circumstances change. While joint arrangements not structured through a separate vehicle will always be a **joint operation**, arrangements structured through a separate vehicle will not always be a **joint venture**. The following can change what appears to be a joint venture (because it is a separate vehicle) into a joint operation:

- Legal form of the separate vehicle may confer rights to gross assets and obligations for gross liabilities rather than rights to net assets of the arrangement
- Terms of contractual arrangement (e.g. contract modifies features of a company so that each party has interests in assets and each is liable for liabilities of the company), or
- Other facts and circumstances (e.g. joint arrangement company manufactures parts used by parties to the arrangement in their own manufacturing processes, operates at a break-even level and no output is sold to third parties. Parties to the arrangement are likely to have rights to all the assets and obligations for all the liabilities of the arrangement, rather than rights to the net assets of the company).

Partnerships were previously accounted for as jointly controlled entities under AASB 131, and therefore equity accounted or proportionately consolidated, irrespective of rights and obligations of the partners. Partnerships meet the definition of a structured vehicle under AASB 11 but the legal form, contractual terms and other facts and circumstances need to be analysed to determine whether rights and obligations are akin to a joint venture (net rights) or a joint operation (gross rights and obligations).

Judgement required

You may need to apply judgement when applying this guidance to the specific facts and circumstances of your NFP to determine whether it has joint control over any other entities. As 31 December 2014 will be the first time that you are applying the new 'control' definition and joint control principles, we recommend that you confirm your conclusions with your engagement partner as early as possible.

More information

You can access additional BDO resources by clicking on the relevant links below

Short summary of the standard
IFRS at a Glance on IFRS 11

Detailed publication covering the application requirements of IFRS 11
Need to Know on IFRS 11

9.3 AASB 12 *Disclosure of Interests in Other Entities*

KEY MESSAGES

- NFPs must also consider the disclosure requirements of AASB 12 *Disclosure of Interests in Other Entities*.
- 'Structured entities' have a different meaning for NFPs – refer AASB guidance included in Appendix E of *AASB 12 Disclosure of Interests in Other Entities.*
- NFPs established by administrative arrangements or legislation are not structured entities.
- Only likely to see NFP structured entities when contractual arrangements are the dominant factor in assessing control.
- NFPs eligible for Reduced Disclosure Requirements will have fewer disclosures for AASB 12.

Additional disclosures

AASB 12 requires extensive disclosures about interests in other entities, irrespective of whether you need to consolidate them or not. For example, AASB 12 includes detailed disclosures about consolidated and unconsolidated structured entities.

Structured entities

AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* also adds guidance to determine whether NFPs are 'structured entities' (refer Appendix E of *AASB 12 Disclosure of Interests in Other Entities).*

A 'structured entity' is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In a **for-profit** context, structured entities are controlled through less conventional means, such as 'auto pilot' vehicles (e.g. securitisation vehicles).

NFPs are often established by administrative arrangements or legislation, especially in the public sector, and these are therefore the dominant factors in deciding who controls the not-for-profit entity. This means that NFPs established by administrative arrangements or legislation are not structured entities because they are not controlled through less conventional means. The AASB 12 disclosures regarding structured entities, such as the provision of financial support without a contractual obligation, are not particularly relevant to such entities, given the expectation of ongoing government funding through appropriations to supplement any other revenue sources.

So what is a structured entity in a not-for-profit context?

A structured entity in a NFP context must be controlled through less conventional means, so this rules out the following as being structured entities:

- Voting or similar rights are the dominant factor when assessing control
- Administrative arrangements or statutory provisions are the dominant factor in assessing control.

We are therefore only likely to see NFP structured entities when **contractual arrangements** are the dominant factor in assessing control.

Reduced disclosure requirements

Many NFP private sector entities are eligible for the Reduced Disclosure Requirements as a Tier 2 entity under AASB 1053 *Application of Tiers of Australian Accounting Standards* which results in a large chunk of disclosures being omitted. However, some do remain and you should not assume that they are eliminated completely.

Note that the Australian Government, State, Territory and Local Governments cannot apply the Reduced Disclosure requirements as these are all considered Tier 1 entities.

More information

You can access additional BDO resources by clicking on the relevant links below

Short summary of the standard
IFRS at a Glance on IFRS 12

The following Need to Know also covers the disclosures requirements in IFRS 12
Need to Know on IFRS 10

9.4 AASB 127 *Separate Financial Statements*

KEY MESSAGES

- AASB 127 only deals with accounting in separate financial statements (i.e. measuring investments in subsidiaries, associates and joint ventures in separate financial statements).
- Consolidation requirements are now included in AASB 10.
- Disclosure requirements are now included in AASB 12.

AASB 127 supersedes AASB 127 *Consolidated and Separate Financial Statements*. The actual mechanics of consolidation have been transferred into AASB 10, leaving AASB 127 as a standard that only deals with accounting in separate financial statements (those prepared in addition to consolidated financial statements), and continues to provide the option of recognising investments in subsidiaries, associates and joint ventures at cost, or at fair value under AASB 139 *Financial Instruments: Recognition and Measurement*.

There are no other major changes to this standard.

More information

You can access additional BDO resources by clicking on the relevant links below

'One page' summary of the standard
IFRS at a Glance on IAS 27

9.5 AASB 128 *Investments in Associates and Joint Ventures*

KEY MESSAGES

- Includes equity accounting requirements for investments in associates and joint ventures.
- Disclosure requirements now included in AASB 12.

AASB 128 supersedes AASB 128 *Investments in Associates* and includes the requirements for the mechanics of equity accounting investments in associates and joint ventures. There are no other major changes to this standard.

More information

You can access additional BDO resources by clicking on the relevant links below

'One page' summary of the standard
IFRS at a Glance on IAS 28

10. *Reduced Disclosure Requirements (RDR)*

KEY MESSAGES

- RDR is voluntary for Tier 2 entities.
- RDR does not apply to Tier 1 entities. Tier 1 entities must produce full general purpose financial statements.
- Private sector not-for-profit entities (charities, clubs, etc.) and large private entities have the opportunity to significantly reduce disclosures by applying RDR.

There are several standards that prescribe the requirements for entities eligible to apply the Reduced Disclosure Requirements (RDR) which were approved by the Australian Accounting Standards Board (AASB) in June 2010.

AASB 1053 *Application of Tiers of Australian Accounting Standards* determines firstly whether your entity is eligible for RDR (refer 10.1 below).

Once eligible, AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* lists out which disclosures you can omit from Australian Accounting Standards when applying RDR.

As the requirements of Accounting Standards change over time, the Australian Accounting Standards Board issues further amending standards to delete new disclosures which are not considered necessary for entities applying RDR. Those that apply to 31 December 2014 years include:

AASB NO.	TITLE
2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements
2011-6	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements
2011-11	Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements
2012-1	Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements
2012-7	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements
2012-11	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments
2013-6	Amendments to AASB 136 arising from Reduced Disclosure Requirements

10.1 AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*

This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities must apply Tier 1 requirements when preparing general purpose financial statements:

- For-profit entities in the private sector that have **public accountability** (as defined in AASB 1053), and
- The Australian Government and State, Territory and Local Governments.

The following entities can choose to apply either Tier 1 or Tier 2 requirements when preparing general purpose financial statements:

- For-profit private sector entities that **do not** have public accountability
- All not-for-profit (NFP) private sector entities
- Public sector entities other than the Australian Government and State, Territory and Local Governments.

Public accountability means accountability to those existing and potential resource providers and others external to the entity that make economic decisions, but not in a position to demand reports tailored to meet their particular information needs.

Examples of entities that have **public accountability** include:

- Entities with debt or equity instruments traded in a public market, or are in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)
- Entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks
- Unlisted disclosing entities under the *Corporations Act 2001*
- Co-operatives that issue debentures
- Registered managed investment schemes
- Superannuation plans regulated by the Australian Prudential Regulation Authority (APRA)
- Authorised deposit-taking institutions.

Things to note:

1. Entities on the above list of publicly accountable entities, plus the Australian Government and State, Territory and Local Governments, cannot apply RDR.
2. RDR is voluntary for Tier 2 entities, i.e. you can choose to prepare full general purpose financial statements instead.
3. If you are dealing with NFP private sector entities (such as charities and schools) and unlisted private companies not intending to IPO in the near future, consider whether these entities are eligible for RDR because it may result in significantly less disclosure and shorter financial statements.
4. Prior to adopting RDR, you need to consider any external covenants or requirements that you may be subject to because RDR is not compliant with IFRSs. You also need to modify note 1 and the directors' declaration, and the auditor must amend their audit report to remove any reference that the financial statements are compliant with IFRSs. The financial statements are however, still categorised as general purpose financial statements.

SECTION B: ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE AT 31 DECEMBER 2014

THE TABLE BELOW INCLUDES A LIST OF ALL ACCOUNTING STANDARDS, AMENDING STANDARDS AND INTERPRETATIONS THAT WERE ISSUED AT TIME OF WRITING BUT DO NOT APPLY TO YEARS ENDING 31 DECEMBER 2014.

AASB NO.	TITLE	ISSUE DATE	OPERATIVE DATE (ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER)	REFERENCE
FINANCIAL INSTRUMENT STANDARDS				
9	Financial Instruments (2009, 2010, 2013 and 2014) **Originally 1 January 2013 – then deferred to 1 January 2015, then deferred to 1 January 2017 and finally amended to 1 January 2018 by AASB 2014-1 (refer below)	Dec 2009/ Dec 2010/	1 Jan 2018**	1.1/ 1.2/ 1.3/1.4
2014-1	Amendments to Australian Accounting Standards (Part E – Financial Instruments)	June 2014	1 Jan 2015	1
NEW REVENUE STANDARD				
IFRS 15	Revenue from Contracts with Customers	Apr 2014	1 Jan 2017	2
OTHER STANDARDS				
14	Regulatory Deferral Accounts	June 2014	1 Jan 2016	3
2014-1	Amendments to Australian Accounting Standards (Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles)	June 2014	1 July 2014	4
2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	Aug 2014	1 Jan 2016	5
2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]	Aug 2014	1 Jan 2016	6
IFRS	Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41	June 2014	1 Jan 2016	7
IFRS	Equity Method in Separate Financial Statements – Amendments to IAS 27	Aug 2014	1 Jan 2016	8
IFRS	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	Sep 2014	1 Jan 2016	9

AASB NO.	TITLE	ISSUE DATE	OPERATIVE DATE (ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER)	REFERENCE
IFRS	Annual Improvements to IFRSs 2012-2014 Cycle	Sep 2014	1 Jan 2016	10
REDUCED DISCLOSURE REQUIREMENTS				
2014-2	Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements	June 2014	1 July 2014	11
SUPERANNUATION ENTITIES				
1056	Superannuation entities	June 2014	1 July 2016	12
PUBLIC SECTOR				
2013-1	Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements	March 2013	1 July 2014	13

1. Financial instrument standards

KEY MESSAGES

Classification and measurement (AASB 9 (2009 & 2010))

- Financial assets will either be measured at amortised cost or fair value.
- Amortised cost can only be used if certain restrictive conditions are met.
- Fair value movements on financial assets will generally be measured through profit or loss, except for investments in equity instruments (not held for trading) where an irrevocable election is made to present gains and losses in OCI (only dividends recognised in profit or loss).
- Gains or losses on financial liabilities measured at fair value are recognised in profit or loss.
- Effects of changes in the liability's credit risk on financial liabilities at fair value are recognised in other comprehensive income.

Hedging (AASB 9 (2013))

- New principles are less complex, with the removal of the strict 80-125% highly effectiveness threshold.
- Easier to apply hedge accounting.

Impairment of financial assets and limited amendments to classification and measurement (AASB 9 (2014))

- New impairment model now based on an 'expected loss' model rather than an 'incurred loss' model.
- A complex three stage model applies to recognising impairment losses for financial institutions.
- A simplified impairment model applies to trade receivables and lease receivables.
- Fair value changes are presented in OCI for debt instruments that meet certain conditions.

After the global financial crisis in 2008, the International Accounting Standards Board (IASB) commenced work on their financial instruments project with a view to a complete rewrite of IAS 39 *Financial Instruments: Recognition and Measurement*. This has resulted in a new financial instruments standard, IFRS 9 *Financial Instruments* (AASB 9 in Australia), being issued in four parts as follows:

- AASB 9 (2009) – Classification and measurement of financial assets
- AASB 9 (2010) – Classification and measurement of financial liabilities and derecognition
- AASB 9 (2013) – Hedging
- IFRS 9 (2014) – Financial asset impairment (not issued as AASB 9 at time of writing).

The original application date was for annual periods beginning on or after 1 January 2013. This was extended to 1 January 2015, 1 January 2017, and finally 1 January 2018 (by AASB 2014-1 Amendments to *Australian Accounting Standards* (Part E – Financial Instruments)).

These changes are summarised briefly below.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News articles
New rules make hedge accounting easier (December 2013)
At last, the final version of IFRS 9 Financial Instruments (August 2014)

Detailed publication covering IFRS 9 requirements
Need to Know on IFRS 9 (2009 & 2010) Classification and Measurement
Need to Know on Hedge Accounting (IFRS 9 Financial Instruments)

Short summary of IFRS 9 (2009, 2010 and 2013) requirements
IFRS at a Glance on IFRS 9

1.1 AASB 9 (2009) – Classification and measurement of financial assets

The first phase of the International Accounting Standards Board's (IASB's) financial instrument project to replace IAS 39 deals with classification and measurement of financial assets and was issued as AASB 9 (2009) in December 2009.

Financial assets under AASB 9 (2009) will be classified based on the:
- Objective of the entity's business model for managing the financial assets, and
- Characteristics of the contractual cash flows.

Amortised cost will be used if both of the following criteria are met:
- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Fair value is used where:
- Amortised cost is not applicable, or
- If doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch).
- Fair value gains or losses are recognised in profit or loss unless the instrument is part of hedging relationship, or is an investment in an equity instrument (that is not held for trading) and you have made an irrevocable election to present gains and losses on that investment in other comprehensive income.

Practically, you will see the following main changes when AASB 9 (2009) is implemented:
- The 'held to maturity' (HTM) category is eliminated. If you have investments in bonds or long term deposits and have classified them as HTM under AASB 139, it is likely that you will need to reclassify these investments to 'amortised cost' under AASB 9
- The 'available-for-sale' (AFS) category is also eliminated. If you have equity investments classified as AFS (e.g. shares in listed or unlisted companies), will need to reclassify these investments to either 'fair value through profit or loss' (FVTPL) or 'fair value through other comprehensive income' (FVTOCI) under AASB 9
- If you have debt investments classified as AFS, you will need to reclassify them to 'amortised cost' if they meet the criteria for amortised cost, and if not, you will need to measure these at FVTPL
- If you have instruments that would previously have been accounted for as a separate 'host' contract measured at amortised cost, and an embedded derivative measured at FVTPL (e.g. investments in convertible bonds or commodity linked notes), it is likely that you will need to account for these at FVTPL in their entirety under AASB 9.

The exemption to measure unquoted equity investments at cost rather than at fair value has been eliminated. This means that under AASB 9, all your investments in equity instruments (both quoted and unquoted) must be measured at fair value.

1.2 AASB 9 (2010) – Classification and measurement of financial liabilities and derecognition

In December 2010, the Australian Accounting Standards Board (AASB) issued amendments to AASB 9 which basically carries forward the following largely unchanged requirements from AASB 139 *Financial Instruments: Recognition and Measurement:*

- Classification and measurement of financial liabilities, and
- Derecognition requirements for financial assets and financial liabilities.

The only change to AASB 139 is that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

1.3 AASB 9 (2013) – Hedge accounting

The second phase of the International Accounting Standards Board's (IASB's) financial instrument project dealt with hedging requirements and was approved by the AASB as an amending standard AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C)* in December 2013.

The new hedging requirements provide a better link to risk management and treasury operations and are less complex. The model makes applying hedge accounting easier, allowing you to apply hedge accounting more broadly and reduces 'artificial' profit or loss.

Key changes introduced include:

- Simplified effectiveness testing, including removal of the 80-125% highly effective threshold
- More items qualify for hedge accounting, e.g. pricing components within a non-financial item, and net foreign exchange cash positions
- Entities can hedge account more effectively exposures that give rise to two risk positions (e.g. interest rate risk and foreign exchange risk, or commodity risk and foreign exchange risk) that are managed by separate derivatives over different periods
- Less profit or loss volatility when using options, forwards and foreign currency swaps

The hedging requirements are available for early adoption provided that the classification and measurement requirements for financial assets and financial liabilities are also adopted at the same time (i.e. AASB 9 (2009) and AASB 9 (2010)).

1.4 IFRS 9 (2014)

Note: The following amendments have not yet been approved by the AASB and therefore cannot be adopted early.

Impairment

The new impairment requirements for financial assets are based on a forward looking 'expected loss model' (rather than the current 'incurred loss' model).

For financial institutions, the impairment model is a complex three stage approach:

- Stage 1: Recognise the next 12 months expected credit losses on financial assets
- Stage 2: Recognise lifetime expected credit losses if there has been a significant credit deterioration
- Stage 3: Recognise lifetime expected credit losses and recognise interest revenue on the net carrying amount (gross amount less the provision amount) if the incurred loss triggers in AASB 139 have been met.

The table below indicates how you will recognise impairment and interest on long-term financial assets.

STAGE	1	2	3
Impairment recognised	12 months expected credit loss	Lifetime expected credit loss	
Interest received recognised	Effective interest on gross amount		Effective interest on net amount

For trade receivables that are less than 12 months, you may apply a 'simplified' model where you recognise lifetime expected losses. For trade receivables and lease receivables longer than 12 months, you have the option to apply the simplified model or the three stage approach. Under the 'simplified' model, the impact of IFRS 9 will be as follows:

- An increase in your credit loss allowance account because you will be providing for credit losses on Day 1 instead of waiting until the receivable is over due
- Loss rates will have to be updated to reflect your expectations about future credit losses.

Example

- Company M has $30 million of trade receivables in their financial statements at 31 December 2014
- The customer base consists of a large number of small clients
- To determine the expected credit losses for trade receivables, Company M uses a provision matrix
- The provision matrix is based on its historical observed default rates, adjusted for forward looking estimates
- At each reporting date, the historical observed default rates are updated
- Company M estimates the following provision matrix at 31 December 2014:

	EXPECTED DEFAULT RATE	GROSS CARRYING AMOUNT	CREDIT LOSS ALLOWANCE (DEFAULT RATE X GROSS CARRYING AMOUNT)
Current	0.3%	$15 million	$45,000
1-30 days past due	1.6%	$7.5 million	$120,000
31-60 days past due	3.6%	$4 million	$144,000
61-90 days past due	6.6%	$2.5 million	$165,000
More than 90 days past due	10.6%	$1 million	$106,000
		$30 million	**$580,000**

At 31 December 2015, Company M revises its forward looking estimates and the general economic outlook is worsening. Company M has $34 million of trade receivables at 31 December 2015.

	EXPECTED DEFAULT RATE	GROSS CARRYING AMOUNT	CREDIT LOSS ALLOWANCE (DEFAULT RATE * GROSS CARRYING AMOUNT)
Current	0.5%	$16 million	$80,000
1-30 days past due	1.8%	$8 million	$144,000
31-60 days past due	3.8%	$5 million	$190,000
61-90 days past due	7%	$3.5 million	$245,000
More than 90 days past due	11%	$1.5 million	$165,000
		$34 million	**$824,000**

The credit loss allowance has increased by $244,000 from $580,000 at 31 December 2014 to $824,000 as at 31 December 2015. The journal entry at 31 December 2015 would be:

	DR	CR
DR Expected credit losses	$244,000	
CR Credit loss allowance		$244,000

Amendments to classification and measurement

A debt instrument is classified at fair value through other comprehensive income under IFRS 9 if:

- It meets the 'solely payments of principal and interest' contractual cash flow characteristics test, and
- The entity is holding the debt instrument to both collect the contractual cash flows, and to sell the financial assets.

This measurement category is likely to apply where you hold a debt investment, such as a government or a corporate bond, that is collecting interest income, but you may need to sell the asset at any time before maturity if cash is needed in the business.

Effective date

The effective date of the full completed version of IFRS 9 (incorporating all the above changes) is 1 January 2018 with retrospective application (to the extent possible). There is a choice of which version of IFRS 9 to adopt (2009, 2010 or 2013) if the date of initial application is before 1 February 2015.

Early adoption is permitted and might be advantageous for entities with available-for-sale investments in equity instruments. There may also be significant benefits from early adoption for entities that are taking out derivatives to manage interest rate, foreign exchange and commodity prices risks.

2. New revenue standard – IFRS 15 *Revenue from Contracts with Customers*

KEY MESSAGES

- The new standard contains a lot more specific and detailed guidance than the current IAS 18 *Revenue* standard, and is a lot more complicated.
- It changes the pattern of revenue and profit recognition.
- It is likely to lead to systems, processes and contract changes.
- It includes a clear set of principles for recognising revenue and may have wide spread impact across industries.

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted (although you can only adopt it early in Australia once approved by the Australian Accounting Standards Board (AASB), which is not expected until late in Q4 2014).

On transition, you can choose to either fully retrospectively restate comparatives from 1 January 2016, or apply the modified retrospective restatement method, with adjustments made via retained earnings on 1 January 2017.

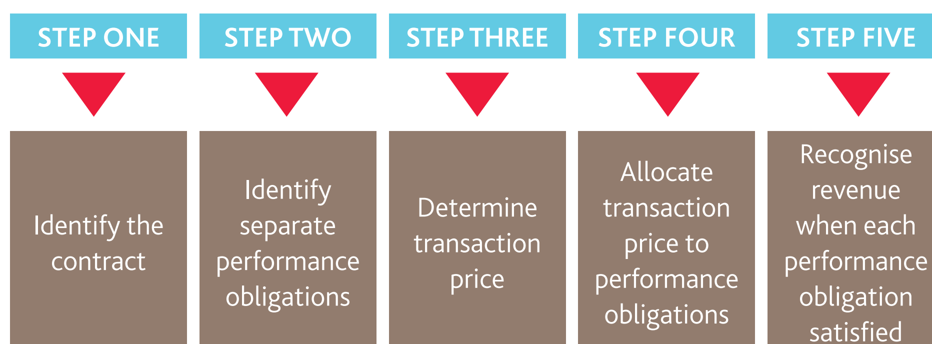
A brief summary of IFRS 15 is included below.

Core principle

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards, as is currently the case under IAS 18 *Revenue*.

Five step process

IFRS 15 includes a five step process for recognising revenue as follows:



Some of the main implications include:

- Contracts negotiated together may now be required to be accounted for together as one contract
- Some current 'point in time' revenue recognition may switch to 'over time', while some current 'percentage of completion' revenue recognition may switch to 'point in time'
- Greater separation of the components or 'promises' made in the contract. Values would need to be assigned to each separate component and revenue recognised separately for each component (e.g. warranties, free give aways, etc.)
- Revenue to be recognised at the (net) amount you expect to receive from your customer/client, rather than the invoiced amount, which may result in a decrease in revenue (e.g. contract penalties and rebates can reduce the amount of revenue recognised)
- May result in deferred revenue recognition on non-refundable payments
- Greater guidance on principal vs. agent relationships, which may result in a decrease in revenue if you are now acting as agent
- Payments received in advance for long term contracts may result in an increase in interest expense and a corresponding increase in revenue
- Additional detailed disclosures and presentation requirements.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News articles
New Revenue Standard (June 2014)

IFRS 15 – Revenue recognition to change for retailers (September 2014)

15 minute video summary

Industry specific publications – *Manufacturing*, *Construction and real estate*, *Media*, *Professional services*, *Retail*, *Software* and *Telecommunications*

Short summary of IFRS 15
IFRS at a Glance on IFRS 15

Practical information and examples about the application of key aspects of IFRS 15
IFRS in Practice on IFRS 15

Detailed publication covering the requirements of IFRS 15
Need to Know on IFRS 15

3. AASB 14 *Regulatory Deferral Accounts*

KEY MESSAGES

- Unlikely to have major impact in Australia.

This standard specifies the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price subject to rate regulation. This is an interim standard pending the outcome of the International Accounting Standards Board's more comprehensive *rate-regulated activities project*.

The standard is not expected to have wide spread application in Australia because it only applies to first-time adopters of IFRS that conduct rate-regulated activities and recognise associated assets and liabilities in accordance with their current national GAAP, e.g. Canada.

More information

You can access additional BDO resources by clicking on the relevant links below

'One page' summary of IFRS 14
IFRS at a Glance on IFRS 14

A more detailed summary of IFRS 14
IFR Bulletin on IFRS 14

4. AASB 2014-1 *Amendments to Australian Accounting Standards* (Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles)

KEY MESSAGES

- Unlikely to have major impact in Australia.
- Listed entities need to pay attention to additional segment reporting disclosures where segments have been aggregated.

AASB 2014-1 clarifies the accounting treatment in the following cases:

- AASB 8 *Operating Segments* – Additional disclosures required about your judgements regarding aggregation criteria used to assess whether your segments have similar economic characteristics
- AASB 8 *Operating Segments* – Only need to disclose a reconciliation of reportable segment assets to the entity's total assets if 'segment assets' is regularly provided to the chief operating decision maker
- AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* – How proportionate restatement of accumulated depreciation is calculated when assets are revalued (mainly impacts public sector entities)
- AASB 124 *Related Party Disclosures* – Payments for key management personnel (KMP) services provided by a 'management entity' must be disclosed as a related party transaction, not as KMP compensation. Note that this mainly impacts funds where a responsible entity provides KMP services generally. Where KMP services are provided by an individual employed by the entity, via a service company, KMP services comprise KMP remuneration and must be disclosed as such
- AASB 13 *Fair Value Measurement* – The 'portfolio exception' applies to all contracts within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*/AASB 9 *Financial Instruments*, regardless of whether they meet the definition of 'financial assets' and 'financial liabilities' under AASB 132 *Financial Instruments: Presentation*.
- AASB 140 *Investment Property* – If the property acquired on or after the beginning of the first period to which these amendments apply (1 January 2015) meets the definition of 'investment property', AASB 3 *Business Combinations* still needs to be considered to determine whether you have purchased an asset or a business.

These changes merely clarify current practice and we do not anticipate the impacts to be material.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article
Annual Improvements to IFRSs for 2010-2012 and 2011-2013 Cycles (February 2014)

5. AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*

KEY MESSAGES

- When acquiring an interest in a joint operation that meets the definition of a business in AASB 3 *Business Combinations,* the AASB 3 approach is used:
  - Assets and liabilities are generally recognised at your share of the fair values with related deferred tax assets and liabilities recognised
  - Acquisition-related costs are expensed.

AASB 2014-3 amends AASB 11 *Joint Arrangements* to clarify the accounting for an acquisition of an interest in a joint operation that constitutes a business, occurring on or after the beginning of the first annual period that begins on or after 1 January 2016.

When you acquire an interest in a joint operation whose activities meet the definition of a 'business' in AASB 3, to the extent of your share of assets, liabilities, revenues and expenses as specified in the contractual arrangement, you must apply all of the principles for business combination accounting in AASB 3, and other Australian Accounting Standards, as long as these principles do not conflict with the guidance in AASB 11.

This means that you will expense all acquisition-related costs, and recognise your share, according to the contractual arrangements, of:

- Fair value of identifiable assets and liabilities, unless fair value exceptions included in AASB 3 or other Australian Accounting Standards, and
- Deferred tax assets and liabilities that arise from the initial recognition of an asset or liability as required by AASB 3 and AASB 112 *Income Taxes*.

You will then recognise goodwill as the excess consideration over the fair value of the net identifiable assets acquired.

Because this amending standard merely clarifies current practice, we recommend that you adopt this method of accounting for all acquisitions that occur on or before 1 January 2016.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article
Changes to IFRS 11 Joint Arrangements – Accounting for acquisitions of interests in joint operations (May 2014)

6. AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*

KEY MESSAGES

- Unlikely to have major impact in Australia.

AASB 2014-4 clarifies that revenue-based methods for calculating depreciation and amortisation are not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of economic benefits embodied in the asset.

This assumption is rebuttable for intangible assets and can be overcome in limited circumstances, for example, where revenue is established as the predominant limiting factor in the contract, such as a concession to explore and extract from a gold mine that expires when total cumulative revenue from extraction of gold reaches a certain dollar threshold.

If you are required to change depreciation or amortisation methods because of these changes, this will be treated as a change in accounting estimate and depreciation/amortisation expense will be adjusted prospectively.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article
IASB clarifies acceptable methods of depreciation and amortisation (May 2014)

7. *Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41*

KEY MESSAGES

- Bearer plants to be accounted for under the property, plant and equipment standard.
- Bearer plants can be measured using the cost or fair value model (gains recognised in OCI).

If you have bearer plants on your balance sheet, such as tea bushes, grape vines, oil palms and rubber plants, this amending standard requires that you account for them under IAS 16 Property, Plant and Equipment, rather than under IAS 41 Agriculture.

This means that in future, you will classify bearer plants as property, plant and equipment under IAS 16, and measure them using the cost or revaluation model. Currently, bearer plants are classified as biological assets under IAS 41, and measured at fair value less costs to sell.

If you choose the revaluation model, gains will be recognised in other comprehensive income instead of in profit or loss.

More information

You can access additional BDO resources by clicking on the relevant links below

Summary of the amendments to IAS 16 and IAS 41
IFR Bulletin on Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)

8. *Equity Method in Separate Financial Statements – Amendments to IAS 27*

KEY MESSAGES

- You can now choose to measure investments in subsidiaries, associates and joint ventures using the equity method in your separate financial statements (in addition to the cost and fair value measurement options).

The amendments provides you with an option to account for investments in subsidiaries, associates and joint ventures in your separate financial statements using the equity method as described in IAS 28 *Investments in Associates and Joint Ventures*. Currently, IAS 27 *Separate Financial Statements* requires that you measure these investments at cost or fair value under IAS 39 *Financial Instruments: Recognition and Measurement*.

When you first adopt these amendments, you may choose to continue with your cost policy, or you may choose to adopt the new equity accounting option, which will result in an increase in investments, retained earnings and other reserves on transition date.

More information

You can access additional BDO resources by clicking on the relevant links below

Summary of the amendments to IAS 27
IFR Bulletin on Equity Method in Separate Financial statements (Amendments to IAS 27)

9. *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28*

KEY MESSAGES

- When control of a subsidiary is lost to an associate or joint venture, and the subsidiary does not contain a business as defined under IFRS 3 *Business Combinations*, the partial gain or loss recognition principles for 'downstream' transactions between an investor and its associate or joint venture apply, i.e. full gain/loss is not recognised in profit or loss.

This amendment deals with the inconsistency that existed between IAS 27 *Consolidated and Separate Financial Statements*, and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, which was not rectified when the new consolidation suite of standards was published:

- Under SIC 13, when a non-monetary asset was contributed to a jointly controlled entity in exchange for an equity interest in that jointly controlled entity, the amount of the gain or loss recognised was restricted to the extent of the unrelated investor's interests in the jointly controlled entity.
- Under IAS 27, on the date when control was lost in the subsidiary, any gains or losses were recognised in full in profit or loss.

The amendments clarify that when selling:

- Assets that comprise a 'business' under IFRS 3 – accounting should be consistent with the IFRS 3 loss of control provisions, and a full gain or loss recognised in profit or loss, regardless of whether the business is housed in a separate subsidiary or not, and
- Assets that do not comprise a 'business' under IFRS 3 – the partial gain or loss recognition principles for 'downstream' transactions between an investor and its associate or joint venture should apply.

For a detailed example, please refer to the BDO Australia Accounting News article under 'More information' below.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article
IASB clarifies accounting for the sale or contribution of assets between an investor and its associate or joint venture (October 2014)

10. *Annual Improvements to IFRSs 2012-2014 Cycle*

KEY MESSAGES

- Unlikely to have major impact in Australia.

The International Accounting Standards Board's 2012-2014 annual improvements cycle clarifies the following accounting:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – If you reclassify an asset/disposal group from being held for sale to being held for distribution to owners, or from being held for distribution to owners to being held for sale, this is considered to be the continuation of the original plan of disposal. If an asset ceases to be held for distribution to owners, the usual IFRS 5 requirements for assets that cease to be classified as held for sale apply
- IFRS 7 *Financial Instruments: Disclosures* – When disclosing details of transferred financial assets under IFRS 7.42D to 42G, there will be 'continuing involvement' for a service contract where the servicing fee is dependent on the amount or timing of cash flows collected from the transferred asset. Also clarifies that offsetting disclosures required by IFRS 7.13A to 13F are not explicitly required in interim periods but may be required if significant under IAS 34 *Interim Financial Reporting*
- IAS 19 *Employee Benefits* – High quality corporate bonds or national government bonds used to determine the discount rate must be denominated in same currency as the benefits that will be paid to the employee
- IAS 34 *Interim Financial Reporting* – If the disclosures required by IAS 34.16A (mandatory interim disclosures) are included elsewhere in the interim financial statements (e.g. management commentary), a cross-reference is required to where this information can be found in the interim financial report. This improvement is unlikely to be approved as an Australian amendment because of the audit/review implications of including disclosures outside the financial statements.

We do not anticipate the impacts of these changes to be material.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article
IASB approves annual improvements for 2012-2014 cycle (October 2014)

11. Reduced disclosure requirements – AASB 2014-2 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*

KEY MESSAGES

- Complex rules when transitioning between Tiers and between SPFS and Tiers.
- Refer to *AASB 2014-2* to determine appropriate application.

When first drafted, AASB 1053 *Application of Tiers of Australian Accounting Standards* required that you adopt AASB 1 *First-time Adoption of Australian Accounting Standards* when transitioning from:

- Special purpose financial statements (SPFSs) to Tier 1 (full general purpose financial statements) or Tier 2 (Reduced Disclosure Requirements) and you **had not** previously applied all the recognition and measurement requirements
- SPFSs to Tier 1 and you **had** previously applied all the recognition and measurement requirements
- Tier 2 to Tier 1 and you **had** previously applied all the recognition and measurement requirements.

Applying AASB 1 give you choices to measure certain items on transition date at amounts that are not fully IFRS compliant, e.g. being able to reset foreign currency translation reserves to zero, and adopting recent fair valuations as deemed cost for property, plant and equipment and investment properties. However, some entities may prefer to retain measurements at amounts as if they had always applied IFRSs (AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*).

The AASB 2014-2 amendments provide you with more choice when transitioning between Tiers, so that:

- You must apply AASB 1 when transitioning from SPFSs to Tier 1 (AASB 1 must be applied, irrespective of whether full recognition and measurement had been applied beforehand)
- You must apply AASB 1 when transitioning from Tier 2 to Tier 1 for the first time
- When transitioning from SPFSs to Tier 2, and you have previously not applied full recognition and measurement, you can choose to apply AASB 1 (limited exemptions) or AASB 108 (full retrospective restatement unless standards permit prospective application)
- When transitioning from Tier 2 to Tier 1, and you have previously applied full recognition and measurement, you can choose to apply AASB 1 (limited exemptions) or AASB 108 (continue with accounting policies as if you had never stopped preparing Tier 1 financial statements)
- You do not apply AASB 1 when transitioning from SPFSs to Tier 2 or Tier 1 to Tier 2.

More information

You can access additional BDO resources by clicking on the relevant links below

BDO Australia Accounting News article

AASB Proposes Changes to the requirements for transition to and between Tiers 1 and 2 (April 2014)

Note: The proposals were finalised without further significant amendments.

12. AASB 1056 *Superannuation Entities*

KEY MESSAGES

- AASB 1056 replaces AAS 25
- Could have significant impacts for fair value measurements.

AASB 1056 replaces AAS 25 Financial Reporting by Superannuation Plans, issued in 1993. AASB 1056 makes the requirements for superannuation plans more consistent with the current requirements of IFRSs.

13. AASB 2013-1 *Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements*

KEY MESSAGES

- Unlikely to have major impact as disclosure of budgetary information has merely been moved from AASB 1049 to AASB 1055.

This amending standard merely removes the disclosure of budgetary information from AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to AASB 1055 *Budgetary Reporting*. All budgetary reporting requirements applicable to public sector entities are now located in a single, topic-based standard, AASB 1055 *Budgetary Reporting*.

SECTION C: ON THE HORIZON

THE TABLE BELOW INCLUDES A LIST OF ALL EXPOSURE DRAFTS THAT WERE ISSUED AT TIME OF WRITING THAT IF ISSUED AS STANDARDS, MAY IMPACT THE WAY THAT YOU ACCOUNT FOR CERTAIN TRANSACTIONS AND BALANCES IN FUTURE.

ED	TITLE	ISSUE DATE	REFERENCE
242	Leases	May 2013	1
249	Disclosure Initiative (Proposed amendments to AASB 101)	March 2014	2
250	Investment Entities: Applying the Consolidation Exemption	June 2014	3
251	Revenue from Contracts with Customers – Tier 2 Proposals	July 2014	4
252	Proposals to supersede AASB Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*	July 2014	5
253	Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to AASB 112)	Aug 2014	6
254	Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to AASB 10, AASB 12, AASB 127, AASB 128 and AASB 136)	Sep 2014	7
255	Financial Reporting Requirements for Australian Groups with a Foreign Parent	Sep 2014	8
256	Removal of Cross-References from Financial Statements to Other Documents	Oct 2014	9

1. Lease accounting

All leases to be capitalised on balance sheet

At the time of writing, the proposed accounting for leases had made a 360 degree turn.

The original proposals, included in ED 202, proposed one lease accounting model, with assets and liabilities arising under lease contracts being recognised on an entity's balance sheet.

The second attempt made by the International Accounting Standards Board (IASB) in ED 242 *Leases* proposed two types of lease model for lessees and lessors, depending on the proportion of economic benefits consumed during the lease, and the type of the underlying asset (Type A and Type B leases).

The IASB continue to deliberate the leasing proposals. At its March 2014 meeting, it decided to revert back to a single on-balance sheet leases model as originally proposed in ED 202. This means that for all leased assets, a lease liability and a right-of-use asset would be recorded on initial recognition. Over the life of the lease, the lessee would record a finance charge and amortisation of the right-of-use of asset. This would result in a front loading of lease expense in profit or loss for property leases, because interest costs would unwind using a constant periodic rate of return, which would be greater in the earlier periods.

Summary

These proposals are likely to impact most entities as leasing/rental arrangements are both a common form of financing and give lessees efficiency in managing assets and associated services which they themselves are not experts in sourcing or managing. Unless you have very short-term rental agreements (less than 12 months), these proposals are likely to mean more debt on your balance sheet which could have a spill over effect to bank covenants, etc. It may also cause a significant administrative burden having to create 'right-of-use' asset registers and calculate the finance charge in respect of each leased asset. The proposals could significantly change the business model of both lessees and the major leasing companies.

Next steps

Deliberations continue. A final standard is not expected until at least the third quarter of 2015.

2. ED 249 *Disclosure Initiative (Proposed amendments to AASB 101)*

This exposure draft results from the IASB's Disclosure Initiative which started in response to concerns raised by respondents to the International Accounting Standards Board's (IASB's) Agenda Consultation in 2011. ED 249 proposes amendments relating to the Disclosure Initiative as follows:

- Materiality – Clarifies that materiality applies to all primary financial statements and notes, and applies, even in the case of a specific list of minimum disclosures
- Line items in financial statements – Clarifies that line items can be disaggregated if doing so could impact users' decision. Subtotals must be made up of items recognised in accordance with IFRSs and additional subtotals in the statement of profit or loss and other comprehensive income must be reconciled back to subtotals required by AASB 101.82
- Notes to the financial statements – Notes no longer need to follow the order of presentation in the primary financial statements. Notes can be positioned in order of importance and various related items can be grouped together, e.g. all financial instruments. This means that accounting policies could be placed at the end of the financial statements.

ED 249 also proposes amendments to clarify that the share of other comprehensive income of associates and joint ventures be presented as two line items, i.e.:

- Those items that will be reclassified subsequently to profit or loss, and
- Those items that will not be reclassified subsequently to profit or loss.

The IASB noted that this form of 'one line' presentation is consistent with the presentation requirement that an entity's share of net profit or loss of associates and joint ventures is to be shown as a separate line item in the profit or loss section of the statement of profit or loss and other comprehensive income.

3. ED 250 *Investment Entities: Applying the Consolidation Exemption*

ED 250 clarifies various aspects of the investment entity requirements included in AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*, which are summarised briefly below.

Intermediate parent entity consolidation exemption

AASB 10, paragraph 4(a) provides an exemption to intermediate parent entities from having to prepare consolidated financial statements if certain criteria are met, including that the ultimate parent entity prepared consolidated financial statements that are available for public use and that comply with IFRSs. ED 250 proposes that this exemption applies, even where the ultimate parent entity is an investment entity, and therefore not preparing consolidated financial statements.

Subsidiaries that provide investment-related services

An investment entity must consolidate subsidiaries that provide investment-related services. ED 250 proposes to clarify that such subsidiary will only be consolidated if:

- It is not itself an investment entity, and
- Its main purpose is to provide investment-related services.

Equity accounting investment entities

The ED proposes that when equity accounting an entity that is an investment entity:

- If investment entity is an associate – no adjustments are made to the fair value measurements of investments in subsidiaries, and
- If investment entity is a joint venture – fair value measurements need to be unwound and subsidiaries of the investment entity need to be consolidated before equity accounting takes place.

4. ED 251 *Revenue from Contracts with Customers – Tier 2 Proposals*

ED 251 proposes to exempt Tier 2 entities applying the Reduced Disclosure Requirements from having to include various disclosures included in IFRS 15 *Revenue from Contracts with Customers*.

5. ED 252 *Proposals to supersede AASB Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry*

Forthcoming AASB 15 *Revenue from Contracts with Customers* deals with the accounting for contract acquisition costs. ED 252 therefore proposes to withdraw Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry* when the forthcoming AASB 15 *Revenue from Contracts with Customers* applies.

6. ED 253 *Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to AASB 112)*

Deductible temporary differences on fixed rate debt instruments

ED 253 proposes to clarify that where market interest rates for a fixed rate debt instrument increase, a deductible temporary difference arises between the tax base (original cost) and the lower fair value, irrespective of whether management expect to recover the carrying amount of the debt instrument by sale or use (holding until maturity and collecting contractual cash flows).

Meaning of taxable profits available to utilise deductible temporary differences

AASB 112 *Income Taxes* requires that a deferred tax asset is only recognised if it is probable that the entity will have sufficient 'taxable profits' to offset the deductible timing differences. In clarifying the meaning of 'taxable profits', the ED proposes to clarify that:

- 'Taxable profits' excludes tax deductions resulting from the reversal of deductible temporary differences
- Estimating 'taxable profits' in future periods requires assessing whether assets will be recovered for more than their carrying amount.

These amendments are unlikely to change current practice.

Separate vs. combined assessment

The ED also proposes to clarify that an entity considers whether to recognise a deferred tax asset for a deductible temporary difference in combination with other assets, unless tax law restricts the utilisation of tax losses against taxable income of a specific type.

This means, for example, in Australia that deductible temporary differences that represent capital losses must be assessed against future taxable income for capital gains only, whereas deductible temporary differences for revenue items can be assessed against future taxable income of either a revenue or capital nature.

This amendment is unlikely to change current practice.

7. ED 254 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to AASB 10, AASB 12, AASB 127, AASB 128 and AASB 136)*

ED 254 proposes to clarify that:

- The fair value of quoted (level 1) investments in subsidiaries, joint ventures and associates equals the product of Quoted Price (P) multiplied the Quantity (Q), without adjustment.
- The recoverable amount of a cash-generating unit (CGU) that corresponds to entities quoted in an active market, on the basis of fair value less costs of disposal, are also determined on the basis of Q X P, without adjustment.

8. ED 255 *Financial Reporting Requirements for Australian Groups with a Foreign Parent*

AASB 10 *Consolidated Financial Statements* specifically requires that for Australian intermediate parent entities to be able to use the consolidation exemption, the ultimate Australian parent entity must prepare consolidated financial statements that comply with IFRSs.

ED 255 proposes a similar requirement in AASB 128 *Investments in Associates and Joint Ventures* for exemptions for equity accounting by intermediate Australian parent entities. The ultimate Australian parent entity will need to apply the equity method in order to obtain the exemption for intermediate parent entity equity accounting at a lower level in the group.

This amendment is merely an Australian 'house keeping' matter that was overlooked when AASB10 and AASB 128 were revised in 2011.

9. ED 256 *Removal of Cross-References from Financial Statements to Other Documents*

Various International Financial Reporting Standards include the ability to disclose certain information outside the financial statements, in documents attached to the published financial statements. Other than the audited remuneration report for companies that are disclosing entities, which has specific audit requirements, information disclosed outside the financial statements is generally not audited.

In order to avoid any unintended audit consequences, the Australian Accounting Standards Board is proposing to remove options for disclosing certain information outside the financial statements, including:

- AASB 1 *First-time Adoption of Australian Accounting Standards* – In the first interim financial statements, IFRS to previous GAAP reconciliations can be included by cross-reference to another published document
- AASB 119 *Employee Benefits* – Information about defined benefit plans that share risks between entities under common control that can be included by cross-reference to disclosures in another group entity's financial statements.

CONTACTS

ADELAIDE

PAUL GOSNOLD
Tel +61 8 7324 6049
paul.gosnold@bdo.com.au

BRISBANE

TIM KENDALL
Tel +61 7 3237 5948
timothy.kendall@bdo.com.au

CAIRNS

GREG MITCHELL
Tel +61 7 4046 0044
greg.mitchell@bdo.com.au

DARWIN

CASMEL TAZIWA
Tel +61 8 8981 7066
casmel.taziwa@bdo.com.au

HOBART

CRAIG STEPHENS
Tel +61 3 6324 2499
craig.stephens@bdo.com.au

MELBOURNE

DAVID GARVEY
Tel: +61 3 9603 1732
david.garvey@bdo.com.au

NEW SOUTH WALES

GRANT SAXON
Tel: +61 2 9240 9976
grant.saxon@bdo.com.au

PERTH

BRAD MCVEIGH
Tel +61 8 6382 4670
brad.mcveigh@bdo.com.au

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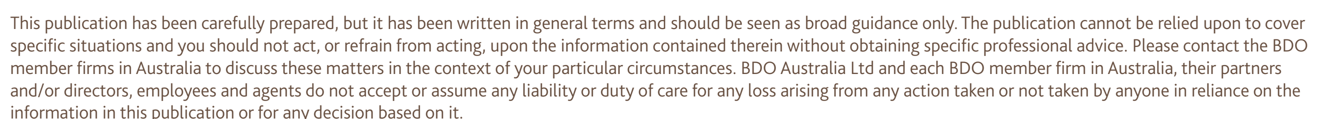

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