

Accounting Standard

AASB 1048
December 2005

Interpretation and Application of Standards



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standard AASB 1048 *Interpretation and Application of Standards* is set out in paragraphs 1 – 12. All the paragraphs have equal authority. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Reasons for Issuing AASB 1048

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. In considering the adoption of the Standards of the IASB, the AASB reached the conclusion that it was desirable to issue an Accounting Standard clarifying the status of the pronouncements of the Urgent Issues Group, the UIG Interpretations (previously known as UIG Abstracts), that are approved by the AASB. This Standard also clarifies the status of AASB Interpretations. UIG and AASB Interpretations are referred to collectively in this Standard as Australian Interpretations.

All Australian Interpretations have the same authoritative status and those that are equivalent to the IASB Interpretations must be applied to achieve compliance with the International Financial Reporting Standards (IFRSs) of the IASB.

The IASB defines IFRSs as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IASs); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Australian Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

Before identifying the main features of this Standard, the adoption of the IASB Standards is described and the need for a 'service Standard' like this is explained.

Adoption of IASB Standards

In implementing the FRC's directive, the AASB has replaced relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

This Standard complements the set of Australian equivalents to each IASB Standard (IFRS and IAS) and Interpretation of the IASB. This set includes Australian Interpretations that correspond to the IASB Interpretations originated by the IFRIC or the SIC. When considering the most effective approach to implementing the FRC directive, the AASB decided that Australian-source documents were needed to provide equivalents to the IASB Interpretations, and that these should be UIG Interpretations. Subsequently, the AASB decided to also issue AASB Interpretations. Correlation between the Australian Interpretations and the IASB Interpretations is provided in Table 1 of this Standard. This Standard will be re-issued when necessary to bring the correlation up to date.

Need for a Service Standard

In the Australian context, Australian Interpretations do not have the same legal status as Standards (delegated legislation) and are treated as 'external documents' by the *Acts Interpretation Act 1901* (and also by the *Legislative Instruments Act 2003*). Although references in one Standard to a second Standard are ambulatory (automatically moving forward to refer to the most recently-issued version of the second Standard), references in a Standard to external documents are stationary (being fixed in time to refer to the contents of the external document when the Standard was issued). A reference to an Australian Interpretation in an AASB Standard issued earlier (for example, in July 2004) than the reporting date at the end of the first effective reporting period can only refer to the Interpretation that existed then (in July 2004). It cannot refer to any revised version of the Interpretation that may exist at the nominated reporting date (for example, 30 June 2006). However, an AASB Standard can be issued in July 2004, referring to a second AASB Standard (existing in July 2004) and, when the first Standard is applied at 30 June 2006, the reference will be to the then-current version of the second Standard, even if it has been re-issued after July 2004.

After analysing the issues, the AASB decided the service Standard approach constitutes the most effective way to ensure that the compliance required in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, has the same meaning as intended in IFRS 1.

The service Standard approach involves issuing an AASB Standard listing the Australian Interpretations corresponding to each IASB Interpretation, and referring to that Standard in every other AASB Standard where necessary to refer to an Interpretation. This enables references to the Interpretations in all other AASB Standards to be updated by re-issuing the service Standard.

This approach preserves the status of Australian Interpretations as ‘external documents’ referred to in a Standard, with the ‘contents’ fixed in time to that existing when the Standard takes effect. It does not treat the Interpretations as delegated legislation or confer ambulatory status on the reference. In each AASB Standard where there is a need to refer to an Australian equivalent of an IASB Interpretation, the reference will be to this Standard, phrased as “*UIG (or AASB) Interpretation (number) (title) identified in AASB 1048 as corresponding to IFRIC (or SIC) (number)*”. This reference, being to another AASB Standard, is ambulatory and will refer to the Standard, AASB 1048, that is in force from time to time. AASB 1048 itself will contain the direct references to the external documents and it will be re-issued to keep all references to Interpretations in the other Standards up to date.

Implementation of this approach to clarifying the status of Australian Interpretations ensures there is no difference between the status in the hierarchy accorded to Interpretations in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* compared with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

A further advantage of this approach, compared with alternative approaches, is that it is able to be combined with implementing the perceived need for an AASB Standard clarifying the status of all Australian Interpretations, irrespective of whether they correspond to an IASB Interpretation.

Main Features of this Standard

This Standard (issued in December 2005) supersedes the previous version of AASB 1048, issued in September 2005.

Application Date

This Standard is applicable in general to annual reporting periods ending on or after 31 December 2005 (see paragraph 3). To be consistent with the position for AASB Standards equivalent to IFRSs, early adoption of this Standard is not permitted for annual reporting periods beginning before 1 January 2005. However, early adoption is otherwise permitted as specified in paragraph 4.

First-time Application and Comparatives

When an entity first applies this Standard in the context of adopting all Australian equivalents to IFRSs, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1, generally requires prior period information, presented as comparative information, to be restated as if the requirements of the Australian equivalents to IFRSs (including those Australian Interpretations equivalent to the IASB Interpretations) had always applied. This differs from the requirements in previous Australian Standards, where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

Main Requirements

This Standard identifies the Australian Interpretations and classifies them into two groups: those that correspond to an IASB Interpretation and those that do not.

In respect of the first group (Table 1), it is necessary for those Australian Interpretations, where relevant, to be applied in order for an entity to be able to make an explicit and unreserved statement of compliance with IFRSs. The IASB defines IFRSs to include the IFRIC and SIC Interpretations.

In the second group (Table 2), this Standard lists the other Australian Interpretations, that do not correspond to the IASB Interpretations, to assist financial report preparers and users to identify the other authoritative pronouncements necessary for compliance in the Australian context.

The Standard will be re-issued when necessary to keep the Tables up to date.

Changes from AASB 1048 (September 2005)

The differences between AASB 1048 (issued in September 2005) and this version issued in December 2005 are the addition of one UIG Interpretation to Table 1 in paragraph 9 of the Standard and the addition of one AASB

Interpretation to Table 2 in paragraph 11 of the Standard, as set out in the following tables.

Table 1 – Addition

| Interpretation <i>Issue Date</i> | Title | Application Date (annual reporting periods) | IFRIC or SIC |
|--|---|---|---------------------|
| 6 <i>October 2005</i> | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment | (beginning) 1 December 2005 | IFRIC 6 |

Table 2 – Addition

| Interpretation <i>Issue Date</i> | Title | Application Date (annual reporting periods) |
|--|---|---|
| 1002 <i>December 2005</i> | Post-Date-of-Transition Stapling Arrangements | (ending) 31 December 2005 |

This is the first AASB Interpretation issued by the AASB.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 1048 and IASB Pronouncements

There is no IASB Standard equivalent to AASB 1048. However, Table 1 in AASB 1048 (see paragraph 9) contains a list of Australian Interpretations identifying the corresponding IASB Interpretations.

Compliance with IFRSs

Entities that apply the Australian Interpretations designated in this Standard as corresponding to the IASB Interpretations will simultaneously be in compliance with the Interpretations referred to by the IASB in its definition of IFRSs. Such compliance is one of the prerequisites that needs to be met before an entity can make an explicit and unreserved statement of compliance with IFRSs, as described in IFRS 1 (paragraph 3).

AASB 1048 and IPSASs

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

There is no IPSAS equivalent to AASB 1048. Further, there are no Interpretations issued or adopted by the IPSASB that are equivalent to the IASB Interpretations or the Australian Interpretations.

ACCOUNTING STANDARD AASB 1048

The Australian Accounting Standards Board makes Accounting Standard AASB 1048 *Interpretation and Application of Standards* under section 334 of the *Corporations Act 2001*.

Dated 8 December 2005

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 1048

INTERPRETATION AND APPLICATION OF STANDARDS

Objective

- 1 The objective of this Standard is to provide an up-to-date listing of UIG and AASB Interpretations and to ensure the effectiveness of references in AASB Standards to UIG and AASB Interpretations. UIG and AASB Interpretations are referred to collectively in this Standard as Australian Interpretations.

Application

- 2 **This Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;**
 - (b) **general purpose financial reports of each reporting entity; and**
 - (c) **financial reports that are, or are held out to be, general purpose financial reports.**
- 3 **This Standard applies to annual reporting periods ending on or after 31 December 2005.**
- 4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to such annual reporting periods when an election has**

been made in accordance with subsection 334(5) of the Corporations Act.

- 5 **When applied or operative, this Standard supersedes AASB 1048 *Interpretation and Application of Standards* as issued in September 2005.**
- 6 **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Scope

- 7 This Standard refers to all Australian Interpretations currently approved by the AASB, classified according to whether or not they correspond to Interpretations adopted by the International Accounting Standards Board (IASB).
- 8 For ease of presentation, the Australian Interpretations are set out in two separate tables: in paragraph 9, Table 1 lists those corresponding to IASB Interpretations and, in paragraph 11, Table 2 lists the other Interpretations. Each reference to an Interpretation in a row in each of the Tables 1 and 2 is to be treated as a separate provision of this Standard.

Australian Interpretations corresponding to IASB Interpretations

- 9 **An entity shall apply each relevant Australian Interpretation listed in Table 1 below.**

Table 1: Australian Interpretations corresponding to IASB Interpretations

| Interpretation <i>Issue Date</i> | Title | Application Date (annual reporting periods) | IFRIC or SIC |
|---|--|--|-------------------------|
| 1 <i>July 2004</i> | Changes in Existing Decommissioning, Restoration and Similar Liabilities | (beginning) 1 January 2005 | IFRIC 1 |
| 2 <i>March 2005</i> | Members' Shares in Co-operative Entities and Similar Instruments | (ending) 31 December 2005 | IFRIC 2 |
| 4 <i>June 2005</i> | Determining whether an Arrangement contains a Lease | (beginning) 1 January 2006 | IFRIC 4 |

Table 1: Australian Interpretations corresponding to IASB Interpretations

| Interpretation Issue Date | Title | Application Date (annual reporting periods) | IFRIC or SIC |
|--------------------------------------|---|--|-------------------------|
| 5 <i>June 2005</i> | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | (beginning) 1 January 2006 | IFRIC 5 |
| 6 <i>October 2005</i> | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment | (beginning) 1 December 2005 | IFRIC 6 |
| 107 <i>July 2004</i> | Introduction of the Euro | (beginning) 1 January 2005 | SIC-7 |
| 110 <i>July 2004</i> | Government Assistance – No Specific Relation to Operating Activities | (beginning) 1 January 2005 | SIC-10 |
| 112 <i>December 2004</i> | Consolidation – Special Purpose Entities | (beginning) 1 January 2005 | SIC-12 |
| 113 <i>July 2004</i> | Jointly Controlled Entities – Non-Monetary Contributions by Venturers | (beginning) 1 January 2005 | SIC-13 |
| 115 <i>July 2004</i> | Operating Leases – Incentives | (beginning) 1 January 2005 | SIC-15 |
| 121 <i>July 2004</i> | Income Taxes – Recovery of Revalued Non-Depreciable Assets | (beginning) 1 January 2005 | SIC-21 |
| 125 <i>July 2004</i> | Income Taxes – Changes in the Tax Status of an Entity or its Shareholders | (beginning) 1 January 2005 | SIC-25 |
| 127 <i>July 2004</i> | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | (beginning) 1 January 2005 | SIC-27 |
| 129 <i>July 2004</i> | Disclosure – Service Concession Arrangements | (beginning) 1 January 2005 | SIC-29 |
| 131 <i>July 2004</i> | Revenue – Barter Transactions Involving Advertising Services | (beginning) 1 January 2005 | SIC-31 |
| 132 <i>July 2004</i> | Intangible Assets – Web Site Costs | (beginning) 1 January 2005 | SIC-32 |

- 10 The application date listed in Table 1 for each Interpretation is a reference to annual reporting periods beginning or ending (as indicated) on or after the date specified. An entity may elect to apply an individual Interpretation to annual reporting periods in advance of that stated for the Interpretation in Table 1. However, an Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.

Other Australian Interpretations

- 11 An entity shall apply each relevant Australian Interpretation listed in Table 2 below.

Table 2: Other Australian Interpretations

| Interpretation Issue Date | Title | Application Date (annual reporting periods) |
|--------------------------------------|---|--|
| 1001 <i>July 2005</i> | Consolidated Financial Reports in relation to Pre-Date-of-Transition Dual Listed Company Arrangements | (ending) 31 December 2005 |
| 1002 <i>December 2005</i> | Post-Date-of-Transition Stapling Arrangements | (ending) 31 December 2005 |
| 1013 <i>April 2005</i> | Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements | (ending) 31 December 2005 |
| 1017 <i>November 2004</i> | Developer and Customer Contributions for Connection to a Price-Regulated Network | (beginning) 1 January 2005 |
| 1019 <i>September 2004</i> | The Superannuation Contributions Surcharge | (beginning) 1 January 2005 |
| 1030 <i>September 2004</i> | Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods | (beginning) 1 January 2005 |
| 1031 <i>July 2004</i> | Accounting for the Goods and Services Tax (GST) | (beginning) 1 January 2005 |
| 1038 <i>September 2004</i> | Contributions by Owners Made to Wholly-Owned Public Sector Entities | (beginning) 1 January 2005 |
| 1039 <i>July 2004</i> | Substantive Enactment of Major Tax Bills in Australia | (beginning) 1 January 2005 |
| 1042 <i>December 2004</i> | Subscriber Acquisition Costs in the Telecommunications Industry | (beginning) 1 January 2005 |

Table 2: Other Australian Interpretations

| Interpretation <i>Issue Date</i> | Title | Application Date (annual reporting periods) |
|--|--|---|
| 1047 <i>November 2004</i> | Professional Indemnity Claims Liabilities in Medical Defence Organisations | (beginning) 1 January 2005 |
| 1052 <i>June 2005</i> | Tax Consolidation Accounting | (ending) 31 December 2005 |
| 1055 <i>September 2004</i> | Accounting for Road Earthworks | (beginning) 1 January 2005 |

- 12 The application date listed in Table 2 for each Interpretation is a reference to annual reporting periods beginning or ending (as indicated) on or after the date specified. An entity may elect to apply an individual Interpretation to annual reporting periods in advance of that stated for the Interpretation in Table 2. However, an Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.