

**Compiled Accounting Standard**

**AASB 1**

# **First-time Adoption of Australian Equivalents to International Financial Reporting Standards**

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This compilation was prepared on 19 July 2005 taking into account amendments made up to and including 30 June 2005.

Prepared by the staff of the Australian Accounting Standards Board.



**Australian Government**

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**BASIS FOR CONCLUSIONS ON IFRS 1**

(available to AASB online subscribers or through the IASB)

Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (as amended at 30 June 2005) is set out in paragraphs 1 – 46 and Appendices A – B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 1 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the UIG Interpretations. 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.

## COMPILATION DETAILS

### **Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* as amended**

This compilation takes into account amendments up to and including 30 June 2005 and was prepared on 19 July 2005 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 1 (July 2004) as amended by other Accounting Standards, which are listed in the Tables below.

**Table of Standards**

Standard	Date made	Date of notification in Gazette or FRLI registration	Application date ( <i>annual reporting periods</i> )	Application, saving or transitional provisions
AASB 1	15 Jul 2004	22 Jul 2004	( <i>beginning</i> ) 1 Jan 2005	
AASB 2004-1	9 Dec 2004	13 Dec 2004	( <i>beginning</i> ) 1 Jan 2005	–
AASB 2004-2	22 Dec 2004	22 Dec 2004	( <i>beginning</i> ) 1 Jan 2005	–
AASB 2004-3	22 Dec 2004	23 Dec 2004	( <i>beginning</i> ) 1 Jan 2006	see (a) below
AASB 2005-4	9 Jun 2005	29 Jun 2005	( <i>beginning</i> ) 1 Jan 2006	see (b) below
AASB 2005-5	9 Jun 2005	6 Jul 2005	( <i>beginning</i> ) 1 Jan 2006	see (c) below
AASB 2005-8	30 Jun 2005	6 Jul 2005	( <i>ending</i> ) 31 Dec 2005	see (d) below

(a) The amendments to paragraphs 13, 20 and 20A are a consequence of the reissue of AASB 119 *Employee Benefits* (December 2004). They will apply from 1 January 2005 to those entities that choose to early-adopt AASB 119 and AASB 2004-3 prior to 1 January 2006.

(b) Entities that choose to adopt the amendments in AASB 2005-4 in respect of AASB 139 *Financial Instruments: Recognition and Disclosure* prior to 1 January 2006 to apply to annual reporting periods beginning on or after 1 January 2005 must also apply the amendments made to AASB 1 by AASB 2005-4.

- (c) The amendments and the added paragraph 25F may be applied before 1 January 2006 to annual reporting periods beginning on or after 1 January 2005 when an entity applies UIG Interpretation 4 *Determining whether an Arrangement contains a Lease* (identified in AASB 1048 *Interpretation and Application of Standards* as corresponding to IFRIC 4) and chooses to early-adopt AASB 2005-5.
- (d) Entities may choose to early-adopt this Standard for annual reporting periods beginning on or after 1 January 2005.

#### Table of Amendments to Standard

Paragraph affected	How affected	By ... [paragraph]
12	amended	AASB 2005-5 [7]
13(c)	replaced	AASB 2004-3 [11]
13(i)	amended	AASB 2005-5 [8]
13(j)	amended	AASB 2005-5 [8]
13(k)	added amended	AASB 2004-2 [7] AASB 2005-5 [8]
13(l)	added	AASB 2004-2 [7]
20	replaced	AASB 2004-3 [11]
20A	added	AASB 2004-3 [11]
25A	amended	AASB 2005-4 [19]
25A(a) to (e)	added	AASB 2005-4 [19]
Aus25D.1	amended	AASB 2005-8 [6]
25F (and preceding heading)	added	AASB 2005-5 [9]
25G (and preceding heading)	added	AASB 2004-2 [8]
36A(c)	amended	AASB 2005-8 [7]
36B (and preceding heading)	added amended	AASB 2004-1 [6] AASB 2005-8 [8 & 9]
43A	amended	AASB 2005-4 [19]

#### Table of Amendments to Implementation Guidance

Paragraph affected	How affected	By ... [paragraph]
IG18	replaced	AASB 2004-3 [12]
IG56(d)(iii)	amended	AASB 2005-4 [20]
IG56(d)(iv)	added	AASB 2005-4 [20]
IG204 (and preceding heading)	added	AASB 2005-5 [10]
IG205	added	AASB 2005-5 [10]
IG Example 202	added	AASB 2005-5 [10]

## Erratum to Implementation Guidance for AASB 1

Subsequent to the making of AASB 1 (15 July 2004), it emerged that the Implementation Guidance needed to be corrected in two areas:

- Australian guidance on life insurance; and
- amendments consequential to IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

In November 2004, the AASB issued the Erratum containing the corrections that appear in this Compiled Standard. The details are identified in the Table below and the Erratum is lodged on FRLI as supporting material.

**Table of Editorial Corrections to Implementation Guidance**

Paragraph affected	How affected	By ... [paragraph]
AIG Example A100	replaced	Erratum Nov 2004 [E1]
AIG 100.3	amended	Erratum Nov 2004 [E1]
IG13	amended	Erratum Nov 2004 [E2]
IG201 – IG203	amended	Erratum Nov 2004 [E2]
IG Example 201	replaced	Erratum Nov 2004 [E2]
IG204	deleted	Erratum Nov 2004 [E2]

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

### **AASB 1 and IFRS 1**

AASB 1 as amended is equivalent to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, as issued and amended by the IASB.

Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB Standard) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering.

### **Compliance with IFRS 1**

Entities that comply with AASB 1 as amended will simultaneously be in compliance with IFRS 1 as amended.

### **AASB 1 and IPSASs**

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

There is no IPSAS dealing with the first-time adoption of IPSASs at present.

## **ACCOUNTING STANDARD AASB 1**

The Australian Accounting Standards Board made Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* under section 334 of the *Corporations Act 2001* on 15 July 2004.

This compiled version of AASB 1 incorporates subsequent amendments contained in other AASB Standards made by the AASB up to and including 30 June 2005 (see Compilation Details).

## **ACCOUNTING STANDARD AASB 1**

### ***FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS***

#### **Objective**

- 1 The objective of this Standard is to ensure that an entity's *first Australian-equivalents-to-IFRSs financial report*, and its interim financial reports for part of the period covered by that financial report, contain high quality information that:
- (a) is transparent for users and comparable over all periods presented;
  - (b) provides a suitable starting point for accounting under *Australian equivalents to IFRSs*; and
  - (c) can be generated at a cost that does not exceed the benefits to users.

#### **Application**

**Aus1.1 This Standard applies to:**

- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
- (b) **general purpose financial reports of each other reporting entity; and**

- (c) **financial reports that are, or are held out to be, general purpose financial reports.**

**Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.**

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

**Aus1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.**

**Aus1.4 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*.**

Aus1.5 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

## Scope

- 2 An entity shall apply this Standard in:
  - (a) its first Australian-equivalents-to-IFRSs financial report; and
  - (b) each interim financial report, if any, that it presents under AASB 134 *Interim Financial Reporting* for part of the period covered by its first Australian-equivalents-to-IFRSs financial report.
- 3 An entity's first Australian-equivalents-to-IFRSs financial report is the first annual financial report in which the entity adopts Australian equivalents to IFRSs, by an explicit and unreserved statement in that financial report of compliance with Australian equivalents to IFRSs. A financial report under Australian equivalents to IFRSs is an entity's first Australian-equivalents-to-IFRSs financial report if, for example, the entity:
  - (a) presented its most recent previous financial report:
    - (i) under national requirements that were not consistent with *International Financial Reporting Standards (IFRSs)* in all respects;
    - (ii) in conformity with IFRSs or Australian equivalents to IFRSs in all respects, except that the financial report did

- not contain an explicit and unreserved statement that it complied with IFRSs or Australian equivalents to IFRSs;
- (iii) containing an explicit statement of compliance with some, but not all, IFRSs or Australian equivalents to IFRSs;
  - (iv) under national requirements inconsistent with IFRSs, using some individual IFRSs or Australian equivalents to IFRSs to account for items for which national requirements did not exist; or
  - (v) under national requirements, with a reconciliation of some amounts to the amounts determined under IFRSs or Australian equivalents to IFRSs;
- (b) prepared financial statements under IFRSs for internal use only, without making them available to the entity's owners or any other external users;
  - (c) prepared a reporting package under IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in AASB 101 *Presentation of Financial Statements*; or
  - (d) did not present financial statements for previous periods.
- Aus3.1 The conditions specified in paragraph 3 for the application of this Standard are satisfied when the first financial report after this Standard becomes effective contains a statement that the financial report complies with Australian Accounting Standards, in accordance with paragraph Aus13.2 of AASB 101.
- 4 This Standard applies when an entity first adopts Australian equivalents to IFRSs. It does not apply when, for example, an entity:
- (a) stops presenting financial reports under national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with IFRSs;
  - (b) presented a financial report in the previous year under national requirements and the financial report contained an explicit and unreserved statement of compliance with IFRSs; or
  - (c) presented a financial report in the previous year that contained an explicit and unreserved statement of compliance with IFRSs,

even if the auditors qualified their audit report on that financial report.

- 5 This Standard does not apply to changes in accounting policies made by an entity that already applies Australian equivalents to IFRSs. Such changes are the subject of:
- (a) requirements on changes in accounting policies in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
  - (b) specific transitional requirements in other Australian equivalents to IFRSs.

## Recognition and Measurement

### Opening Australian-equivalents-to-IFRSs balance sheet

- 6 An entity shall prepare an *opening Australian-equivalents-to-IFRSs balance sheet* at the *date of transition to Australian equivalents to IFRSs*. This is the starting point for its accounting under Australian equivalents to IFRSs. An entity need not present its opening Australian-equivalents-to-IFRSs balance sheet in its first Australian-equivalents-to-IFRSs financial report.

### Accounting policies

- 7 **An entity shall use the same accounting policies in its opening Australian-equivalents-to-IFRSs balance sheet and throughout all periods presented in its first Australian-equivalents-to-IFRSs financial report. Those accounting policies shall comply with each of the Australian equivalents to IFRSs effective at the reporting date for its first Australian-equivalents-to-IFRSs financial report, except as specified in paragraphs 13-34.**
- 8 An entity shall not apply different versions of Australian equivalents to IFRSs that were effective at earlier dates. An entity may apply a new Standard that is not yet mandatory if it permits early application.

**Example: Consistent application of latest version of Australian equivalents to IFRSs**

**BACKGROUND**

The reporting date for entity A's first Australian-equivalents-to-IFRSs financial report is 31 December 2005. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 36). Therefore, its date of transition to Australian equivalents to IFRSs is the beginning of business on 1 January 2004 (or, equivalently, close of business on 31 December 2003). Entity A presented financial reports under its *previous GAAP* annually to 31 December each year up to, and including, 31 December 2004.

**APPLICATION OF REQUIREMENTS**

Entity A is required to apply AASB 1 effective for periods ending on 31 December 2005 in:

- (a) preparing its opening Australian-equivalents-to-IFRSs balance sheet at 1 January 2004; and
- (b) preparing and presenting its balance sheet for 31 December 2005 (including comparative amounts for 2004), income statement, statement of changes in equity and cash flow statement for the year to 31 December 2005 (including comparative amounts for 2004) and disclosures (including comparative information for 2004).

If a new Standard is not yet mandatory for the period ending 31 December 2005 but permits early application, entity A is permitted, but not required, to apply that Standard in its first Australian-equivalents-to-IFRSs financial report.

- 9 The transitional provisions in other Australian equivalents to IFRSs apply to changes in accounting policies made by an entity that already uses Australian equivalents to IFRSs; they do not apply to a *first-time adopter's* transition to Australian equivalents to IFRSs, except as specified in paragraphs 25D, 34A and Aus34B.1.
- 10 Except as described in paragraphs 13-34, an entity shall, in its opening Australian-equivalents-to-IFRSs balance sheet:
  - (a) recognise all assets and liabilities whose recognition is required by Australian equivalents to IFRSs;
  - (b) not recognise items as assets or liabilities if Australian equivalents to IFRSs do not permit such recognition;
  - (c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different

type of asset, liability or component of equity under Australian equivalents to IFRSs; and

- (d) apply Australian equivalents to IFRSs in measuring all recognised assets and liabilities.

- 11 The accounting policies that an entity uses in its opening Australian-equivalents-to-IFRSs balance sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Australian equivalents to IFRSs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Australian equivalents to IFRSs.
- 12 This Standard establishes two categories of exceptions to the principle that an entity's opening Australian-equivalents-to-IFRSs balance sheet shall comply with each of the Australian equivalents to IFRSs:
  - (a) paragraphs 13-25G grant exemptions from some requirements of other Australian equivalents to IFRSs; and
  - (b) paragraphs 26-34 prohibit retrospective application of some aspects of other Australian equivalents to IFRSs.

### **Exemptions from other Australian equivalents to IFRSs**

- 13 An entity may elect to use one or more of the following exemptions:
  - (a) business combinations (paragraph 15);
  - (b) *fair value* or revaluation as *deemed cost* (paragraphs 16-19);
  - (c) employee benefits (paragraphs 20 and 20A);
  - (d) cumulative translation differences (paragraphs 21 and 22);
  - (e) compound financial instruments (paragraph 23);
  - (f) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs 24 and 25);
  - (g) designation of previously recognised financial instruments (paragraph 25A);
  - (h) share-based payment transactions (paragraphs 25B and 25C);

- (i) insurance contracts (paragraphs 25D and Aus25D.1);
- (j) decommissioning liabilities included in the cost of property, plant and equipment (paragraph 25E);
- (k) leases (paragraph 25F); and
- (l) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph 25G).

An entity shall not apply these exemptions by analogy to other items.

- 14 Some exemptions below refer to fair value. AASB 3 *Business Combinations* explains how to determine the fair values of identifiable assets and liabilities acquired in a business combination. An entity shall apply those explanations in determining fair values under this Standard, unless another Australian Accounting Standard contains more specific guidance on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.

#### **Business combinations**

- 15 An entity shall apply the requirements in Appendix B to business combinations that the entity recognised before the date of transition to Australian equivalents to IFRSs.

#### **Fair value or revaluation as deemed cost**

- 16 An entity may elect to measure an item of property, plant and equipment at the date of transition to Australian equivalents to IFRSs at its fair value and use that fair value as its deemed cost at that date.
- 17 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Australian equivalents to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
- (a) fair value; or
  - (b) cost or depreciated cost under Australian equivalents to IFRSs, adjusted to reflect, for example, changes in a general or specific price index.

- 18 The elections in paragraphs 16 and 17 are also available for:

- (a) investment property, if an entity elects to use the cost model in AASB 140 *Investment Property*; and
- (b) intangible assets that meet:
  - (i) the recognition criteria in AASB 138 *Intangible Assets* (including reliable measurement of original cost); and
  - (ii) the criteria in AASB 138 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

- 19 A first-time adopter may have established a deemed cost under previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. It may use such event-driven fair value measurements as deemed cost for Australian equivalents to IFRSs at the date of that measurement.

#### **Employee benefits**

- 20 Under AASB 119 *Employee Benefits* as issued in December 2004, an entity may elect to use a 'corridor' approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to Australian equivalents to IFRSs into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to Australian equivalents to IFRSs, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.
- 20A An entity may disclose the amounts required by AASB 119 as issued in December 2004 paragraph 120A(p) as the amounts are determined for each annual reporting period prospectively from the transition date.

#### **Cumulative translation differences**

- 21 AASB 121 *The Effects of Changes in Foreign Exchange Rates* requires an entity:
- (a) to classify some translation differences as a separate component of equity; and

- (b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) to the income statement as part of the gain or loss on disposal.

22 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to Australian equivalents to IFRSs. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Australian equivalents to IFRSs; and
- (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Australian equivalents to IFRSs and shall include later translation differences.

#### **Compound financial instruments**

23 AASB 132 *Financial Instruments: Disclosure and Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of AASB 132 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, under this Standard, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Australian equivalents to IFRSs.

#### **Assets and liabilities of subsidiaries, associates and joint ventures**

24 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Australian equivalents to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

- (b) the carrying amounts required by the rest of this Standard, based on the subsidiary's date of transition to Australian equivalents to IFRSs. These carrying amounts could differ from those described in (a):
  - (i) when the exemptions in this Standard result in measurements that depend on the date of transition to Australian equivalents to IFRSs; or
  - (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in AASB 116 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

- 25 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture), the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

#### **Designation of previously recognised financial instruments**

25A AASB 139 *Financial Instruments: Recognition and Measurement* permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:

- (a) any entity is permitted to make an available-for-sale designation at the date of transition to Australian equivalents to IFRSs;
- (b) an entity that presents its first Australian-equivalents-to-IFRSs financial report for an annual period beginning on or after 1 September 2006 – such an entity is permitted to designate, at the date of transition to Australian equivalents to IFRSs, any financial asset or financial liability as at fair value through profit

or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of AASB 139 at that date;

- (c) an entity that presents its first Australian-equivalents-to-IFRSs financial report for an annual period beginning on or after 1 January 2006 and before 1 September 2006 – such an entity is permitted to designate, at the date of transition to Australian equivalents to IFRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of AASB 139 at that date. When the date of transition to Australian equivalents to IFRSs is before 1 September 2005, such designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the date of transition to Australian equivalents to IFRSs and 1 September 2005;
- (d) an entity that presents its first Australian-equivalents-to-IFRSs financial report for an annual period beginning before 1 January 2006 and applies paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the amendments made to paragraphs 9, 12 and 13 of AASB 139 by AASB 2005-4 *Amendments to Australian Accounting Standards* – such an entity is permitted at the start of its first Australian-equivalents-to-IFRSs reporting period to designate as at fair value through profit or loss any financial asset or financial liability that qualifies for such designation in accordance with these new and amended paragraphs at that date. When the entity's first Australian-equivalents-to-IFRSs reporting period begins before 1 September 2005, such designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the beginning of that period and 1 September 2005. If the entity restates comparative information for AASB 139 it shall restate that information for the financial assets, financial liabilities, or group of financial assets, financial liabilities or both, designated at the start of its first Australian-equivalents-to-IFRSs reporting period. Such restatement of comparative information shall be made only if the designated items or groups would have met the criteria for such designation in paragraph 9(b)(i), 9(b)(ii) or 11A of AASB 139 at the date of transition to Australian equivalents to IFRSs or, if acquired after the date of transition to Australian equivalents to IFRSs, would have met the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A at the date of initial recognition; and
- (e) for an entity that presents its first Australian-equivalents-to-IFRSs financial report for an annual period beginning before

1 September 2006 – notwithstanding paragraph 91 of AASB 139, any financial assets and financial liabilities of such an entity designated as at fair value through profit or loss in accordance with subparagraph (c) or (d) above that were previously designated as the hedged item in fair value hedge accounting relationships shall be de-designated from those relationships at the same time they are designated as at fair value through profit or loss.

### **Share-based payment transactions**

25B A first-time adopter is encouraged, but not required, to apply AASB 2 *Share-based Payment* to equity instruments that were granted on or before 7 November 2002. A first-time adopter is also encouraged, but not required, to apply AASB 2 to equity instruments that were granted after 7 November 2002 that vested before the later of (a) the date of transition to Australian equivalents to IFRSs and (b) 1 January 2005. However, if a first-time adopter elects to apply AASB 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in AASB 2. For all grants of equity instruments to which AASB 2 has not been applied (e.g. equity instruments granted on or before 7 November 2002), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of AASB 2. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which AASB 2 has not been applied, the entity is not required to apply paragraphs 26-29 of AASB 2 if the modification occurred before the later of (a) the date of transition to Australian equivalents to IFRSs and (b) 1 January 2005.

25C A first-time adopter is encouraged, but not required, to apply AASB 2 to liabilities arising from share-based payment transactions that were settled before the date of transition to Australian equivalents to IFRSs. A first-time adopter is also encouraged, but not required, to apply AASB 2 to liabilities that were settled before 1 January 2005. For liabilities to which AASB 2 is applied, a first-time adopter is not required to restate comparative information to the extent that the information relates to a period or date that is earlier than 7 November 2002.

### **Insurance contracts**

25D A first-time adopter may apply the transitional provisions in AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.

Aus25D.1 All references to AASB 1023 and AASB 1038 in this Standard are to the versions effective beginning on or after 1 January 2005. For the purposes of this Standard, AASB 1023 and AASB 1038 are treated as if they are Australian equivalents to IFRSs.

**Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment**

25E The UIG Interpretation identified in AASB 1048 *Interpretation and Application of Standards* as corresponding to IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to Australian equivalents to IFRSs. If a first-time adopter uses this exemption, it shall:

- (a) measure the liability as at the date of transition to Australian equivalents to IFRSs in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- (b) to the extent that the liability is within the scope of the UIG Interpretation identified in AASB 1048 as corresponding to IFRIC 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- (c) calculate the accumulated depreciation on that amount, as at the date of transition to Australian equivalents to IFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under Australian equivalents to IFRSs.

**Determining whether an arrangement contains a lease**

25F A first-time adopter may apply the transitional provisions in UIG Interpretation 4 *Determining whether an Arrangement contains a Lease* identified in AASB 1048 *Interpretation and Application of Standards* as corresponding to IFRIC 4. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to Australian equivalents to IFRSs contains a lease on the basis of facts and circumstances existing at that date.

### **Fair value measurement of financial assets or financial liabilities**

25G Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of AASB 139 paragraph AG76, and paragraph AG76A, in either of the following ways:

- (a) prospectively to transactions entered into after 25 October 2002;  
or
- (b) prospectively to transactions entered into after 1 January 2004.

### **Exceptions to retrospective application of other Australian equivalents to IFRSs**

26 This Standard prohibits retrospective application of some aspects of other Australian equivalents to IFRSs relating to:

- (a) derecognition of financial assets and financial liabilities (paragraph 27);
- (b) hedge accounting (paragraphs 28-30);
- (c) estimates (paragraphs 31-34); and
- (d) assets classified as held for sale and discontinued operations (paragraphs 34A and Aus34B.1).

### **Derecognition of financial assets and financial liabilities**

27 Except as permitted by paragraph 27A, a first-time adopter shall apply the derecognition requirements in AASB 139 prospectively for transactions occurring on or after 1 January 2004. In other words, if a first-time adopter derecognised financial assets or non-derivative financial liabilities under its previous GAAP as a result of a transaction that occurred before 1 January 2004, it shall not recognise those assets and liabilities under Australian equivalents to IFRSs (unless they qualify for recognition as a result of a later transaction or event).

27A Notwithstanding paragraph 27, an entity may apply the derecognition requirements in AASB 139 retrospectively from a date of the entity's choosing, provided that the information needed to apply AASB 139 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

### Hedge accounting

- 28 As required by AASB 139, at the date of transition to Australian equivalents to IFRSs, an entity shall:
- (a) measure all derivatives at fair value; and
  - (b) eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities.
- 29 An entity shall not reflect in its opening Australian-equivalents-to-IFRSs balance sheet a hedging relationship of a type that does not qualify for hedge accounting under AASB 139 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position as a hedged item under previous GAAP, it may designate an individual item within that net position as a hedged item under Australian equivalents to IFRSs, provided that it does so no later than the date of transition to Australian equivalents to IFRSs.
- 30 If, before the date of transition to Australian equivalents to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in AASB 139, the entity shall apply paragraphs 91 and 101 of AASB 139 to discontinue hedge accounting. Transactions entered into before the date of transition to Australian equivalents to IFRSs shall not be retrospectively designated as hedges.

### Estimates

- 31 **An entity's estimates under Australian equivalents to IFRSs at the date of transition to Australian equivalents to IFRSs shall be consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**
- 32 An entity may receive information after the date of transition to Australian equivalents to IFRSs about estimates that it had made under previous GAAP. Under paragraph 31, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting date under AASB 110 *Events After the Balance Sheet Date*. For example, assume that an entity's date of transition to Australian equivalents to IFRSs is 1 January 2004 and new information on 15 July

2004 requires the revision of an estimate made under previous GAAP at 31 December 2003. The entity shall not reflect that new information in its opening Australian-equivalents-to-IFRSs balance sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in its income statement (or, if appropriate, other changes in equity) for the year ended 31 December 2004.

- 33 An entity may need to make estimates under Australian equivalents to IFRSs at the date of transition to Australian equivalents to IFRSs that were not required at that date under previous GAAP. To achieve consistency with AASB 110, those estimates under Australian equivalents to IFRSs shall reflect conditions that existed at the date of transition to Australian equivalents to IFRSs. In particular, estimates at the date of transition to Australian equivalents to IFRSs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.
- 34 Paragraphs 31-33 apply to the opening Australian-equivalents-to-IFRSs balance sheet. They also apply to a comparative period presented in an entity's first Australian-equivalents-to-IFRSs financial report, in which case the references to the date of transition to Australian equivalents to IFRSs are replaced by references to the end of that comparative period.

#### **Assets classified as held for sale and discontinued operations**

- 34A *AASB 5 Non-current Assets Held for Sale and Discontinued Operations* requires that it shall be applied prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after the effective date of that Standard. AASB 5 permits an entity to apply the requirements of the Standard to all non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after any date before its effective date, provided the valuations and other information needed to apply the Standard were obtained at the time those criteria were originally met.
- 34B [Deleted by the AASB]
- Aus34B.1 Entities adopting Australian equivalents to IFRSs on or after 1 January 2005 shall apply AASB 5 to comparative information presented in an entity's first Australian-equivalents-to-IFRSs financial report.

## Presentation and Disclosure

- 35 This Standard does not provide exemptions from the presentation and disclosure requirements in other Australian equivalents to IFRSs.

### Comparative information

- 36 To comply with AASB 101 *Presentation of Financial Statements*, an entity's first Australian-equivalents-to-IFRSs financial report shall include at least one year of comparative information under Australian equivalents to IFRSs.

- Aus36.1 Comparative information is required to facilitate understanding of the current reporting period and does not replace the original financial report for the preceding period.

### Exemption from the requirement to restate comparative information for AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038

- 36A In its first Australian-equivalents-to-IFRSs financial report, an entity that adopts Australian equivalents to IFRSs before 1 January 2006 shall present at least one year of comparative information, but this comparative information need not comply with AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038. An entity that chooses to present comparative information that does not comply with AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038 in its first year of transition shall:

- (a) apply its previous GAAP in the comparative information to financial instruments within the scope of AASB 132 and AASB 139 and to insurance contracts within the scope of AASB 4, AASB 1023 and AASB 1038;
- (b) disclose this fact, together with the basis used to prepare this information; and
- (c) disclose the nature of the main adjustments that would make the information comply with AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038. The entity need not quantify those adjustments. However, the entity shall treat any adjustment between the balance sheet at the comparative period's reporting date (i.e. the balance sheet that includes comparative information under previous GAAP) and the balance sheet at the start of the *first Australian-equivalents-to-IFRSs reporting period* (i.e. the first period that includes information that complies with AASB 132, AASB 139, AASB 4,

AASB 1023 and AASB 1038) as arising from a change in accounting policy and give the disclosures required by paragraphs 28(a)-(e) and (f)(i) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Paragraph 28(f)(i) applies only to amounts presented in the balance sheet at the comparative period's reporting date.

In the case of an entity that chooses to present comparative information that does not comply with AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038, references to the 'date of transition to Australian equivalents to IFRSs' shall mean, in the case of those Standards only, the beginning of the first Australian-equivalents-to-IFRSs reporting period.

#### **Exemption from the requirement to present comparative information for AASB 6**

36B An entity that adopts Australian equivalents to IFRSs before 1 January 2006 need not apply the requirements of AASB 6 *Exploration for and Evaluation of Mineral Resources* to comparative information presented in its first Australian-equivalents-to-IFRSs financial report.

#### **Historical summaries**

37 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information under Australian equivalents to IFRSs. This Standard does not require such summaries to comply with the recognition and measurement requirements of Australian equivalents to IFRSs. Furthermore, some entities present comparative information under previous GAAP as well as the comparative information required by AASB 101. In any financial reports containing historical summaries or comparative information under previous GAAP, an entity shall:

- (a) label the previous GAAP information prominently as not being prepared under Australian equivalents to IFRSs; and
- (b) disclose the nature of the main adjustments that would make it comply with Australian equivalents to IFRSs. An entity need not quantify those adjustments.

#### **Explanation of transition to Australian equivalents to IFRSs**

38 **An entity shall explain how the transition from previous GAAP to Australian equivalents to IFRSs affected its reported financial position, financial performance and cash flows.**

## Reconciliations

- 39 To comply with paragraph 38, an entity's first Australian-equivalents-to-IFRSs financial report shall include:
- (a) reconciliations of its equity reported under previous GAAP to its equity under Australian equivalents to IFRSs for both of the following dates:
    - (i) the date of transition to Australian equivalents to IFRSs; and
    - (ii) the end of the latest period presented in the entity's most recent annual financial report under previous GAAP;
  - (b) a reconciliation of the profit or loss reported under previous GAAP for the latest period in the entity's most recent annual financial report to its profit or loss under Australian equivalents to IFRSs for the same period; and
  - (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening Australian-equivalents-to-IFRSs balance sheet, the disclosures that AASB 136 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Australian equivalents to IFRSs.
- 40 The reconciliations required by paragraph 39(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. If an entity presented a cash flow statement under its previous GAAP, it shall also explain the material adjustments to the cash flow statement.
- 41 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 39(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.
- 42 AASB 108 does not deal with changes in accounting policies that occur when an entity first adopts Australian equivalents to IFRSs. Therefore, AASB 108's requirements for disclosures about changes in accounting policies do not apply in an entity's first Australian-equivalents-to-IFRSs financial report.
- 43 If an entity did not present financial statements for previous periods, its first Australian-equivalents-to-IFRSs financial report shall disclose that fact.

### **Designation of financial assets or liabilities**

- 43A An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph 25A. The entity shall disclose the fair value of any financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial report.

### **Use of fair value as deemed cost**

- 44 If an entity uses fair value in its opening Australian-equivalents-to-IFRSs balance sheet as deemed cost for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs 16 and 18), the entity's first Australian-equivalents-to-IFRSs financial report shall disclose, for each line item in the opening Australian-equivalents-to-IFRSs balance sheet:
- (a) the aggregate of those fair values; and
  - (b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

### **Interim financial reports**

- 45 To comply with paragraph 38, if an entity presents an interim financial report under AASB 134 *Interim Financial Reporting* for part of the period covered by its first Australian-equivalents-to-IFRSs financial report, the entity shall satisfy the following requirements in addition to the requirements of AASB 134.
- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include reconciliations of:
    - (i) its equity under previous GAAP at the end of that comparable interim period to its equity under Australian equivalents to IFRSs at that date; and
    - (ii) its profit or loss under previous GAAP for that comparable interim period (current and year-to-date) to its profit or loss under Australian equivalents to IFRSs for that period.
  - (b) In addition to the reconciliations required by (a), an entity's first interim financial report under AASB 134 for part of the period

covered by its first Australian-equivalents-to-IFRSs financial report shall include the reconciliations described in paragraph 39(a) and (b) (supplemented by the details required by paragraphs 40 and 41) or a cross-reference to another published document that includes these reconciliations.

- 46 AASB 134 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial report. However, AASB 134 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial report under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

## **Effective Date of IFRS 1**

- 47 [Deleted by the AASB]

## APPENDIX A

### DEFINED TERMS

*This appendix is an integral part of AASB 1.*

<b>Australian equivalents to IFRSs</b>	Australian equivalents to IFRSs comprise: <ul style="list-style-type: none"><li>(a) Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are equivalent to Standards issued by the International Accounting Standards Board (IASB), being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and</li><li>(b) UIG Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 <i>Interpretation and Application of Standards</i>.</li></ul>
<b>date of transition to Australian equivalents to IFRSs</b>	The beginning of the earliest annual reporting period for which an entity presents full information under <b>Australian equivalents to IFRSs</b> as comparative information in its <b>first Australian-equivalents-to-IFRSs financial report</b> .
<b>deemed cost</b>	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
<b>fair value</b>	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
<b>first Australian-equivalents-to-IFRSs financial report</b>	The first annual financial report in which an entity adopts <b>Australian equivalents to IFRSs</b> , by an explicit and unreserved statement of compliance with <b>Australian equivalents to IFRSs</b> .

<b>first Australian-equivalents-to-IFRSs reporting period</b>	The reporting period ending on the <b>reporting date</b> of an entity's <b>first Australian-equivalents-to-IFRSs financial report</b>
<b>first-time adopter</b>	An entity that presents its <b>first Australian-equivalents-to-IFRSs financial report</b> .
<b>International Financial Reporting Standards (IFRSs)</b>	Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise: <ul style="list-style-type: none"> <li>(a) International Financial Reporting Standards;</li> <li>(b) International Accounting Standards; and</li> <li>(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).</li> </ul>
<b>opening Australian-equivalents-to-IFRSs balance sheet</b>	An entity's balance sheet (published or unpublished) at the <b>date of transition to Australian equivalents to IFRSs</b> .
<b>previous GAAP</b>	The basis of accounting that a <b>first-time adopter</b> used immediately before adopting <b>Australian equivalents to IFRSs</b> .
<b>reporting date</b>	The end of the latest period covered by a financial report or by an interim financial report.

## **APPENDIX B**

### **BUSINESS COMBINATIONS**

*This appendix is an integral part of AASB 1.*

- B1** A first-time adopter may elect not to apply AASB 3 *Business Combinations* retrospectively to past business combinations (business combinations that occurred before the date of transition to Australian equivalents to IFRSs). However, if a first-time adopter restates any business combination to comply with AASB 3, it shall restate all later business combinations and shall also apply AASB 136 *Impairment of Assets* and AASB 138 *Intangible Assets* from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2002, it shall restate all business combinations that occurred between 30 June 2002 and the date of transition to Australian equivalents to IFRSs, and it shall also apply AASB 136 and AASB 138 from 30 June 2002.
- B1A** An entity need not apply AASB 121 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to Australian equivalents to IFRSs. If the entity does not apply AASB 121 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied under previous GAAP.
- B1B** An entity may apply AASB 121 retrospectively to fair value adjustments and goodwill arising in either:
- (a) all business combinations that occurred before the date of transition to Australian equivalents to IFRSs; or
  - (b) all business combinations that the entity elects to restate to comply with AASB 3, as permitted by paragraph B1 above.
- B2** If a first-time adopter does not apply AASB 3 retrospectively to a past business combination, this has the following consequences for that business combination.
- (a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer or a uniting of interests) as in its previous GAAP financial report.

- (b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to Australian equivalents to IFRSs that were acquired or assumed in a past business combination, other than:
  - (i) some financial assets and financial liabilities derecognised under previous GAAP (see paragraph 27); and
  - (ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated balance sheet under previous GAAP and also would not qualify for recognition under Australian equivalents to IFRSs in the separate balance sheet of the acquiree (see paragraphs B2(f)-B2(i)).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see paragraph B2(g)(i)).

- (c) The first-time adopter shall exclude from its opening Australian-equivalents-to-IFRSs balance sheet any item recognised under previous GAAP that does not qualify for recognition as an asset or liability under Australian equivalents to IFRSs. The first-time adopter shall account for the resulting change as follows:
  - (i) the first-time adopter may have recognised as an intangible asset an item that does not qualify for recognition as an asset under AASB 138 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and minority interests) as part of goodwill (see paragraph B2(g)(i)); and
  - (ii) the first-time adopter shall recognise all other resulting changes in retained earnings<sup>1</sup>.
- (d) Australian equivalents to IFRSs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter measures these assets and liabilities on that basis in its opening Australian-equivalents-to-IFRSs balance sheet, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by

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<sup>1</sup> Such changes include reclassifications from or to intangible assets if goodwill was not recognised under previous GAAP as an asset.

adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.

- (e) Immediately after the business combination, the carrying amount under previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost under Australian equivalents to IFRSs at that date. If Australian equivalents to IFRSs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.
- (f) If an asset acquired, or liability assumed, in a past business combination was not recognised under previous GAAP, it does not have a deemed cost of zero in the opening Australian-equivalents-to-IFRSs balance sheet. Instead, the acquirer shall recognise and measure it in its consolidated balance sheet on the basis that Australian equivalents to IFRSs would require in the balance sheet of the acquiree. To illustrate: if the acquirer had not, under its previous GAAP, recognised a liability for a defined benefit fund deficiency assumed in a past business combination, it shall recognise that liability (assuming it continues to exist at transition date) in its consolidated financial statements, as AASB 119 would require the acquiree to do in its Australian-equivalents-to-IFRSs balance sheet. Conversely, if an asset or liability was subsumed in goodwill under previous GAAP but would have been recognised separately under AASB 3, that asset or liability remains in goodwill unless Australian equivalents to IFRSs would require its recognition in the financial statements of the acquiree.
- (g) The carrying amount of goodwill in the opening Australian-equivalents-to-IFRSs balance sheet shall be its carrying amount under previous GAAP at the date of transition to Australian equivalents to IFRSs, after the following three adjustments.
  - (i) If required by paragraph B2(c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset under previous GAAP. Similarly, if paragraph B2(f) requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill under previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and minority interests).

- (ii) A contingency affecting the amount of the purchase consideration for a past business combination may have been resolved before the date of transition to Australian equivalents to IFRSs. If a reliable estimate of the contingent adjustment can be made and its payment is probable, the first-time adopter shall adjust the goodwill by that amount. Similarly, the first-time adopter shall adjust the carrying amount of goodwill if a previously recognised contingent adjustment can no longer be measured reliably or its payment is no longer probable.
  - (iii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply AASB 136 *Impairment of Assets* in testing the goodwill for impairment at the date of transition to Australian equivalents to IFRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by AASB 136, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to Australian equivalents to IFRSs.
- (h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to Australian equivalents to IFRSs. For example, the first-time adopter shall not restate the carrying amount of goodwill:
- (i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition under AASB 138 in the balance sheet of the acquiree);
  - (ii) to adjust previous amortisation of goodwill; or
  - (iii) to reverse adjustments to goodwill that AASB 3 would not permit, but were made under previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to Australian equivalents to IFRSs.
- (i) [Deleted by the AASB: superseded AASB 1013 *Accounting for Goodwill* did not permit recognised goodwill to be deducted from equity]
  - (j) Under its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary under previous GAAP or did not prepare

consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that Australian equivalents to IFRSs would require in the subsidiary's balance sheet. The deemed cost of goodwill equals the difference at the date of transition to Australian equivalents to IFRSs between:

- (i) the parent's interest in those adjusted carrying amounts; and
  - (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.
- (k) The measurement of minority interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect minority interests and deferred tax.
- B3** The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for paragraph B1 applies equally for all such acquisitions.

## IMPLEMENTATION GUIDANCE

### ***AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards***

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## IMPLEMENTATION GUIDANCE

### ***AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards***

*This guidance accompanies, but is not part of, AASB 1.*

#### **Introduction**

IG1 This implementation guidance has been adapted from that accompanying IFRS 1 (June 2003) to reflect the Australian context, where “previous GAAP” means the financial reporting regime that applied prior to the introduction of Australian equivalents to IFRSs. To assist Australian users, the calendar year used in the illustrative examples has been changed to refer to July/June years. It includes amendments made by the IASB to its Guidance in IFRSs issued since June 2003 up to 31 March 2004. It:

- (a) explains how the requirements of AASB 1 interact with the requirements of some other Australian equivalents to IFRSs. This explanation addresses those Australian equivalents to IFRSs that are most likely to involve questions that are specific to first-time adopters; and
- (b) includes an illustrative example to show how a first-time adopter might disclose how the transition to Australian equivalents to IFRSs affected its reported financial position, financial performance and cash flows, as required by paragraphs 39(a) and (b), 40 and 41 of AASB 1 (paragraph IG63).

#### ***AASB 110 Events After the Balance Sheet Date***

IG2 Except as described in paragraph IG3, an entity applies AASB 110 in determining whether:

- (a) its opening Australian-equivalents-to-IFRSs balance sheet reflects an event that occurred after the date of transition to Australian equivalents to IFRSs; and
- (b) comparative balance sheet amounts in its first Australian-equivalents-to-IFRSs financial statements reflect an event that occurred after the end of that comparative period.

IG3 Paragraphs 31-34 of AASB 1 require some modifications to the principles in AASB 110 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of transition to Australian equivalents to IFRSs (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 31-34 of AASB 1 do not require modifications to the principles in AASB 110.

- (a) Case 1 – Previous GAAP required estimates of similar items for the date of transition to Australian equivalents to IFRSs, using an accounting policy that is consistent with Australian equivalents to IFRSs. In this case, the estimates under Australian equivalents to IFRSs need to be consistent with estimates made for that date under previous GAAP, unless there is objective evidence that those estimates were in error (see *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*). The entity reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of transition to Australian equivalents to IFRSs.
- (b) Case 2 – Previous GAAP required estimates of similar items for the date of transition to Australian equivalents to IFRSs, but the entity made those estimates using accounting policies that are not consistent with its accounting policies under Australian equivalents to IFRSs. In this case, the estimates under Australian equivalents to IFRSs need to be consistent with the estimates required under previous GAAP for that date (unless there is objective evidence that those estimates were in error), after adjusting for the difference in accounting policies. The opening Australian-equivalents-to-IFRSs balance sheet reflects those adjustments for the difference in accounting policies. As in case 1, the entity reports later revisions to those estimates as events of the period in which it makes the revisions.

For example, previous GAAP may have required an entity to recognise and measure provisions on a basis consistent with *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*, except that the previous GAAP measurement was on an undiscounted basis. In this example, the entity uses the estimates under previous GAAP as inputs in making the discounted measurement required by *AASB 137*.

- (c) Case 3 – Previous GAAP did not require estimates of similar items for the date of transition to Australian equivalents to IFRSs. Estimates under Australian equivalents to IFRSs for that

date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of transition to Australian equivalents to IFRSs reflect market conditions at that date. This is consistent with the distinction in AASB 110 between adjusting events after the reporting date and non-adjusting events after the reporting date.

### **IG Example 1: Estimates**

#### **BACKGROUND**

Entity A's first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006 and includes comparative information for one year. In its previous GAAP financial reports for 30 June 2004 and 2005, entity A:

- (a) made estimates of accrued expenses and provisions at those dates;
- (b) accounted on a cash basis for a defined benefit pension plan; and
- (c) did not recognise a provision for a court case arising from events that occurred in March 2005. When the court case was concluded on 31 December 2005, entity A was required to pay 1,000 and paid this on 10 January 2006.

In preparing its first Australian-equivalents-to-IFRSs financial report, entity A concludes that its estimates under previous GAAP of accrued expenses and provisions at 30 June 2004 and 2005 were made on a basis consistent with its accounting policies under Australian equivalents to IFRSs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those over- and underestimates involves the routine adjustment of estimates under AASB 108.

#### **APPLICATION OF REQUIREMENTS**

In preparing its opening Australian-equivalents-to-IFRSs balance sheet at 1 July 2004 and in its comparative balance sheet at 30 June 2005, entity A:

- (a) does not adjust the previous estimates for accrued expenses and provisions; and

*continued*

- (b) makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan under AASB 119 *Employee Benefits*. Entity A's actuarial assumptions at 1 July 2004 and 30 June 2005 do not reflect conditions that arose after those dates. For example, entity A's:
- (i) discount rates at 1 July 2004 and 30 June 2005 for the pension plan and for provisions reflect market conditions at those dates; and
  - (ii) actuarial assumptions at 1 July 2004 and 30 June 2005 about future employee turnover rates do not reflect conditions that arose after those dates – such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 2005/6.
- (c) The treatment of the court case at 30 June 2005 depends on the reason why entity A did not recognise a provision under previous GAAP at that date. Previous GAAP was consistent with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

ASSUMPTION 1 – Entity A concluded that the recognition criteria were not met, as evidence only became available after the date the 2004/5 financial report was authorised for issue. In this case, entity A's assumptions under Australian equivalents to IFRSs are consistent with its assumptions under previous GAAP. Therefore, entity A does not recognise a provision at 30 June 2005.

ASSUMPTION 2 – The entity did not follow the previous GAAP and non-recognition of the provision was an error (since sufficient evidence existed at 30 June 2005). Therefore, entity A recognises a provision at 30 June 2005 in accordance with AASB 108.

IG4 Paragraphs 31-34 of AASB 1 do not override requirements in other Australian equivalents to IFRSs that base classifications or measurements on circumstances existing at a particular date. Examples include:

- (a) the distinction between finance leases and operating leases (see AASB 117 *Leases*);
- (b) the restrictions in AASB 138 *Intangible Assets* that prohibit capitalisation of expenditure on an internally generated intangible asset if the asset did not qualify for recognition when the expenditure was incurred; and

- (c) the distinction between financial liabilities and equity instruments (see AASB 132 *Financial Instruments: Disclosure and Presentation*).

### **AASB 112 *Income Taxes***

- IG5 An entity applies AASB 112 to temporary differences between the carrying amount of the assets and liabilities in its opening Australian-equivalents-to-IFRSs balance sheet and their tax bases.
- IG6 Under AASB 112, the measurement of current and deferred tax reflects tax rates and tax laws that have been enacted or substantively enacted by the reporting date. An entity accounts for the effect of changes in tax rates and tax laws when those changes are enacted or substantively enacted.

### **AASB 116 *Property, Plant and Equipment***

- IG7 If an entity's depreciation methods and rates under previous GAAP are acceptable under Australian equivalents to IFRSs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraphs 31 and 32 of AASB 1 and paragraph 61 of AASB 116). However, in some cases, an entity's depreciation methods and rates under previous GAAP may differ from those that would be acceptable under Australian equivalents to IFRSs. If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening Australian-equivalents-to-IFRSs balance sheet retrospectively so that it complies with Australian equivalents to IFRSs.
- IG8 An entity may elect to use one of the following amounts as the deemed cost of an item of property, plant and equipment:
  - (a) fair value at the date of transition to Australian equivalents to IFRSs (paragraph 16 of AASB 1), in which case the entity gives the disclosures required by paragraph 44 of AASB 1;
  - (b) a revaluation under previous GAAP that meets the criteria in paragraph 17 of AASB 1; or
  - (c) fair value at the date of an event such as a privatisation or initial public offering (paragraph 19 of AASB 1).
- IG9 Subsequent depreciation is based on that deemed cost and starts from the date for which the entity established the fair value measurement or revaluation.

IG10 In the case of a for-profit entity that chooses as its accounting policy the revaluation model in AASB 116 for some or all classes of property, plant and equipment, it presents the cumulative revaluation reserve as a separate component of equity. The revaluation reserve at the date of transition to Australian equivalents to IFRSs is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair value at the date of transition to Australian equivalents to IFRSs, the entity gives the disclosures required by paragraph 44 of AASB 1.

AIG10.1 The following example provides guidance to for-profit entities that are using the revaluation model and on transition are moving from a class-based revaluation reserve under previous GAAP to an individual-asset-based revaluation reserve under Australian equivalents to IFRSs. AASB 116 requires that a revaluation decrease be charged directly against any related revaluation reserve to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. In contrast, previous GAAP requires revaluation increments and decrements to be offset against one another within a class of non-current assets. Paragraph 10 of AASB 1 requires an entity, in its opening Australian-equivalents-to-IFRSs balance sheet, to reclassify amounts that it recognised under previous GAAP as one component of equity but that are a different component of equity under Australian equivalents to IFRSs. An example of this reclassification, when the exceptions in paragraphs 13 – 34 of AASB 1 do not apply, is given below.

**AIG Example A1: Revaluation reserve – for-profit entities**

Entity Z's first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006 and includes comparative information for 2004/5 only. Prior to first-time adoption, entity Z's annual financial reports complied with previous GAAP. Under previous GAAP, entity Z chose to apply the fair value basis to its property, plant and equipment, which comprised one class. The position for the asset revaluation reserve of entity Z under its previous GAAP for years ending 30 June 2002, 2003 and 2004 is given in column 5 of the table below.

*continued*

On first-time adoption of AASB 116, entity Z chooses the revaluation model as its accounting policy. In its opening Australian-equivalents-to-IFRSs balance sheet (1 July 2004), entity Z reclassifies 150 from the retained profits component of equity to the revaluation reserve component of equity. Column 6 of the table below shows the reclassification under AASB 116, together with the position that would have resulted if AASB 116 had applied in the years from 2002 to the date of transition.

1 DETAILS	2 Asset A	3 Asset B	4 Class	5 AASB 1041		6 AASB 116	
				Asset Revaluation Reserve	Expense	Asset Revaluation Reserve	Expense
Cost 30-6-2002	1,000	800	1,800	-	-	-	-
Revaluation increment, year ended 30-6-2003	250	-*	250	250	-	250	-
Carrying amount as at 30-6-2003	1,250	800	2,050	250	-	250	-
Revaluation decrement, year ended 30-6-2004	-*	(150)	(150)	(150)	-	-	(150)
Carrying amount as at 30-6-2004	1,250	650	1,900	100	-	250	-

\* The fair value of these assets was reassessed, but found not to have changed.

**AIG10.2** In the case of a not-for-profit entity that chooses as its accounting policy the revaluation model in AASB 116 for some or all classes of property, plant and equipment, the not-for-profit entity continues to present the previous GAAP cumulative revaluation reserve relating to each class of property, plant and equipment.

**IG11** If revaluations under previous GAAP did not satisfy the criteria in paragraph 17 or 19 of AASB 1, an entity measures the revalued assets in its opening balance sheet on one of the following bases:

- (a) cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the cost model in AASB 116;

- (b) deemed cost, being the fair value at the date of transition to Australian equivalents to IFRSs (paragraph 16 of AASB 1); or
- (c) revalued amount, if the entity adopts the revaluation model in AASB 116 as its accounting policy under Australian equivalents to IFRSs for all items of property, plant and equipment in the same class.

IG12 AASB 116 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, AASB 116 does not prescribe the unit of measure for recognition of an asset, that is, what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances (see AASB 116, paragraphs 9 and 43).

IG13 In some cases, the construction or commissioning of an asset results in an obligation for an entity to dismantle or remove the asset and restore the site on which the asset stands. An entity applies AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* in recognising and measuring any resulting provision. The entity applies AASB 116 in determining the resulting amount included in the cost of the asset, before depreciation and impairment losses. Items such as depreciation and, when applicable, impairment losses cause differences between the carrying amount of the liability and the amount included in the carrying amount of the asset. An entity accounts for changes in such liabilities in accordance with UIG Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* identified in AASB 1048 *Interpretation and Application of Standards* as corresponding to IFRIC 1. However, paragraph 25E of AASB 1 provides an exemption for changes that occurred before the date of transition to Australian equivalents to IFRSs, and prescribes an alternative treatment where the exemption is used. An example of the first-time adoption of this Interpretation, which illustrates the use of this exemption, is given at paragraphs IG201-IG203.

## **AASB 117 Leases**

IG14 At the date of transition to Australian equivalents to IFRSs, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease (AASB 117, paragraph 13). In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification in accordance with AASB 117 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a

new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.

IG15 [Deleted by the AASB]

IG16 SIC-15 *Operating Leases—Incentives* is an IASB Interpretation that applies to lease terms beginning on or after 1 January 1999. However, a first-time Australian-equivalents-to-IFRSs adopter applies the UIG Interpretation identified in AASB 1048 as equivalent to SIC-15 to all leases, whether they started before or after that date.

## **AASB 118 Revenue**

IG17 [Deleted by the AASB]

## **AASB 119 Employee Benefits**

IG18 At the date of transition to Australian equivalents to IFRSs, an entity applies AASB 119 as issued in July 2004 or may early adopt AASB 119 as issued in December 2004 in measuring net employee benefit assets or liabilities under defined benefit plans, but it may elect to recognise all cumulative actuarial gains or losses from the inception of the plan until the date of transition to Australian equivalents to IFRSs even if its accounting policy under AASB 119 as issued in December 2004 will involve leaving some later actuarial gains and losses unrecognised (paragraph 20 of AASB 1). The transitional provisions in AASB 119 as issued in December 2004 do not apply to an entity's opening Australian-equivalents-to-IFRSs balance sheet (paragraph 9 of AASB 1).

IG19 An entity's actuarial assumptions at the date of transition to Australian equivalents to IFRSs are consistent with actuarial assumptions made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 31 of AASB 1). The impact of any later revisions to those assumptions is an actuarial gain or loss of the period in which the entity makes the revisions.

IG20 An entity may need to make actuarial assumptions at the date of transition to Australian equivalents to IFRSs that were not necessary under its previous GAAP. Such actuarial assumptions do not reflect conditions that arose after the date of transition to Australian equivalents to IFRSs. In particular, discount rates and the fair value of

plan assets at the date of transition to Australian equivalents to IFRSs reflect market conditions at that date. Similarly, the entity's actuarial assumptions at the date of transition to Australian equivalents to IFRSs about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of transition to Australian equivalents to IFRSs (paragraph 32 of AASB 1).

IG21 In many cases, an entity's first Australian-equivalents-to-IFRSs financial report will reflect measurements of employee benefit obligations at three dates: the reporting date, the date of the comparative balance sheet and the date of transition to Australian equivalents to IFRSs. AASB 119 encourages an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimise costs, an entity may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (AASB 119, paragraph 57).

### ***AASB 121 The Effects of Changes in Foreign Exchange Rates***

IG21A An entity may, under previous GAAP, have treated goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. If so, the entity is permitted to apply prospectively the requirements of paragraph 47 of AASB 121 to all acquisitions occurring after the date of transition to Australian equivalents to IFRSs.

### ***AASB 3 Business Combinations***

IG22 The following examples illustrate the effect of Appendix B of AASB 1, assuming that a first-time adopter uses the exemption.

### **IG Example 2: Business combination**

#### **BACKGROUND**

Entity B's first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006 and includes comparative information for 2004/5 only. On 1 January 2002, entity B acquired 100 per cent of subsidiary C. Under its previous GAAP, entity B:

- (a) classified the business combination as an acquisition by entity B;
- (b) measured the assets acquired and liabilities assumed at the following amounts under previous GAAP at 30 June 2004 (date of transition to Australian equivalents to IFRSs):
  - (i) identifiable assets less liabilities for which Australian equivalents to IFRSs require cost-based measurement at a date after the business combination: 200 (with a tax base of 150 and an applicable tax rate of 30 per cent);
  - (ii) pension liability: nil (because entity B used a pay-as-you-go cash method of accounting for pensions under its previous GAAP). The present value of the defined benefit obligation measured under AASB 119 *Employee Benefits* is 130 and the fair value of plan assets is 100. The tax base of the pension liability is also nil; and
  - (iii) goodwill: 180; and
- (c) did not, at the date of acquisition, recognise deferred tax arising from temporary differences associated with the identifiable assets acquired and liabilities assumed.

#### **APPLICATION OF REQUIREMENTS**

In its opening (consolidated) Australian-equivalents-to-IFRSs balance sheet, entity B:

- (a) classifies the business combination as an acquisition by entity B even if the business combination would have qualified under AASB 3 as a reverse acquisition by subsidiary C (paragraph B2(a) of AASB 1);

*continued*

- (b) does not adjust the accumulated amortisation of goodwill. Entity B tests the goodwill for impairment under AASB 136 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to Australian equivalents to IFRSs (1 July 2004). If no impairment exists, the carrying amount of the goodwill remains at 180 (paragraph B2(g));
- (c) for those net identifiable assets acquired for which Australian equivalents to IFRSs require cost-based measurement at a date after the business combination, treats their carrying amount under previous GAAP immediately after the business combinations as their deemed cost at that date (paragraph B2(e));
- (d) does not restate the accumulated depreciation and amortisation of the net identifiable assets in (c), unless the depreciation methods and rates under previous GAAP result in amounts that differ materially from those required under Australian equivalents to IFRSs. If no such restatement is made, the carrying amount of those assets in the opening Australian-equivalents-to-IFRSs balance sheet equals their carrying amount under previous GAAP at the date of transition to Australian equivalents to IFRSs (200) (paragraph IG7);
- (e) if there is any indication that identifiable assets are impaired, tests those assets for impairment, based on conditions that existed at the date of transition to Australian equivalents to IFRSs (see AASB 136);
- (f) recognises the pension liability, and measures it, at the present value of the defined benefit obligation (130) less the fair value of the plan assets (100), giving a carrying amount of 30, with a corresponding debit of 30 to retained earnings (paragraph B2(d)); and
- (g) recognises a net deferred tax liability of 6 (20 at 30 per cent) arising from:
  - (i) the taxable temporary difference of 50 (200 less 150) associated with the identifiable assets acquired and non-pension liabilities assumed, less
  - (ii) the deductible temporary difference of 30 (30 less nil) associated with the pension liability.

*continued*

The entity recognises the resulting increase in the deferred tax liability as a deduction from retained earnings (paragraph B2(k), Appendix B, AASB 1). If a taxable temporary difference arises from the initial recognition of the goodwill, entity B does not recognise the resulting deferred tax liability (paragraph 15(a) of AASB 112 *Income Taxes*).

### **IG Example 3: Business combination – restructuring provision**

#### **BACKGROUND**

Entity D's first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006 and includes comparative information for 2004/5 only. On 1 January 2004, entity D acquired 100 per cent of subsidiary E. Under its previous GAAP, entity D recognised an (undiscounted) restructuring provision of 100 that would not have qualified as an identifiable liability under AASB 3. The recognition of this restructuring provision increased goodwill by 100. At 1 July 2004 (date of transition to Australian equivalents to IFRSs), entity D:

- (a) had paid restructuring costs of 60; and
- (b) estimated that it would pay further costs of 40 in 2005, and that the effects of discounting were immaterial. At 30 June 2004, those further costs did not qualify for recognition as a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

#### **APPLICATION OF REQUIREMENTS**

In its opening Australian-equivalents-to-IFRSs balance sheet, entity D:

- (a) does not recognise a restructuring provision (paragraph B2(c), Appendix B, AASB 1);
- (b) does not adjust the amount assigned to goodwill. However, entity D tests the goodwill for impairment under AASB 136 *Impairment of Assets*, and recognises any resulting impairment loss (paragraph B2(g), Appendix B, AASB 1); and
- (c) as a result of (a) and (b), reports retained earnings in its opening Australian-equivalents-to-IFRSs balance sheet that are higher by 40 (before income taxes, and before recognising any impairment loss) than in the balance sheet at the same date under previous GAAP.

**IG Example 4: Business combination – intangible assets**

**BACKGROUND**

Entity F's first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006 and includes comparative information for 2004/5 only. On 1 January 2002, entity F acquired 75 per cent of subsidiary G. Under its previous GAAP, entity F assigned an initial carrying amount of 200 to intangible assets that would not have qualified for recognition under AASB 138 *Intangible Assets*. The tax base of the intangible assets was nil, giving rise to a deferred tax liability (at 30 per cent) of 60.

On 1 July 2004 (the date of transition to Australian equivalents to IFRSs), the carrying amount of the intangible assets under previous GAAP was 160, and the carrying amount of the related deferred tax liability was 48 (30 per cent of 160).

**APPLICATION OF REQUIREMENTS**

Because the intangible assets do not qualify for recognition as separate assets under AASB 138, entity F transfers them to goodwill, together with the related deferred tax liability (48) and minority interests (paragraph B2(g)(i), Appendix B, AASB 1). The related minority interests amount to 28 (25 per cent of [160 - 48 = 112]). Thus, the increase in goodwill is 84 - intangible assets (160) less deferred tax liability (48) less minority interests (28).

Entity F tests the goodwill for impairment under AASB 136 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to Australian equivalents to IFRSs (paragraph B2(g)(iii), Appendix B, AASB 1).

**IG Example 5: Business combination – treatment of intangible assets**

**BACKGROUND**

Entity H acquired a subsidiary before the date of transition to Australian equivalents to IFRSs. Under its previous GAAP, entity H:

- (a) recognised an intangible asset of the subsidiary that does not qualify for recognition as an asset under AASB 138 *Intangible Assets*; and

*continued*

- (b) did not recognise an intangible asset of the subsidiary that would qualify under AASB 138 for recognition as an asset in the financial statements of the subsidiary. The subsidiary held the asset at the date of its acquisition by entity H.

#### APPLICATION OF REQUIREMENTS

In its opening Australian-equivalents-to-IFRSs balance sheet, entity H:

- (a) does not recognise the intangible asset that does not qualify for recognition as an asset under AASB 138. The elimination of this intangible asset (together with any related deferred tax balance) increases goodwill (paragraphs B2(c)(i) and B2(g)(i), Appendix B); and
- (b) recognises the intangible asset that qualifies under AASB 138 for recognition as an asset in the financial statements of the subsidiary, even though the amount assigned to it under previous GAAP in entity H's consolidated financial statements was nil (paragraph B2(f), Appendix B). The recognition criteria in AASB 138 include the availability of a reliable measurement of cost (paragraphs IG45-IG48) and entity H measures the asset at cost less accumulated depreciation and less any impairment losses identified under AASB 136. Since this intangible asset was subsumed in goodwill, recognition of this intangible asset decreases the carrying amount of goodwill accordingly (and, if applicable, adjusted deferred tax and minority interests) (paragraph B2(g)(i), Appendix B).

#### **IG Example 6: Business combination – subsidiary not consolidated under previous GAAP**

##### BACKGROUND

Parent J's date of transition to Australian equivalents to IFRSs is 1 July 2004. Under its previous GAAP, parent J did not consolidate its 75 per cent subsidiary K, acquired in a business combination on 15 January 2002. On 1 July 2004:

- (a) the cost of parent J's investment in subsidiary K is 180; and
- (b) under Australian equivalents to IFRSs, subsidiary K would measure its assets at 500 and its liabilities (including deferred tax under AASB 112) at 300. On this basis, subsidiary K's net assets are 200 under Australian equivalents to IFRSs.

*continued*

#### APPLICATION OF REQUIREMENTS

Parent J consolidates subsidiary K. The consolidated balance sheet at 1 July 2004 includes:

- (a) subsidiary K's asset at 500 and liabilities at 300;
- (b) minority interests of 50 (25 per cent of [500-300]); and
- (c) goodwill of 30 (cost of 180 less 75 per cent of [500-300]) (paragraph B2(j), Appendix B). Parent J tests the goodwill for impairment under AASB 136 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to Australian equivalents to IFRSs (paragraph B2(g)(iii), Appendix B).

#### **IG Example 7: Business combination – finance lease not capitalised under previous GAAP**

[Deleted: superseded AASB 1008 *Leases* required finance leases to be capitalised]

### ***AASB 123 Borrowing Costs***

IG23 On first adopting Australian equivalents to IFRSs, an entity adopts a policy of capitalising borrowing costs (AASB 123 allowed alternative treatment) or not capitalising them (AASB 123 benchmark treatment). The entity applies that policy consistently in its opening Australian-equivalents-to-IFRSs balance sheet and in all periods presented in its first Australian-equivalents-to-IFRSs financial report. However, if the entity established a deemed cost for an asset, the entity does not capitalise borrowing costs incurred before the date of the measurement that established the deemed cost.

IG24 Under the allowed alternative treatment, AASB 123 requires disclosure of interest capitalised during the period. Neither AASB 123 nor AASB 1 require disclosure of the cumulative amount capitalised.

IG25 If a first-time adopter adopts the AASB 123 allowed alternative treatment, AASB 1 requires retrospective application of that treatment, even for periods before the effective date of AASB 123 (paragraph 9 of AASB 1).

AIG25.1 Prior to the effective date of AASB 123, Australian entities were required to capitalise borrowing costs related to qualifying assets (AASB 1036 *Borrowing Costs*). Continuing to use the allowed alternative treatment in AASB 123 does not constitute a change of accounting policy.

## ***AASB 127 Consolidated and Separate Financial Statements***

IG26 A first-time adopter consolidates all subsidiaries that it controls, unless AASB 127 requires otherwise.

IG27 If a first-time adopter did not consolidate a subsidiary under previous GAAP, then:

- (a) in its consolidated financial statements, the first-time adopter measures the subsidiary's assets and liabilities at the same carrying amounts as in the Australian-equivalents-to-IFRSs financial statements of the subsidiary, after adjusting for consolidation procedures and for the effects of the business combination in which it acquired the subsidiary (paragraph 25, AASB 1). If the subsidiary has not adopted Australian equivalents to IFRSs in its financial statements, the carrying amounts described in the previous sentence are those that Australian equivalents to IFRSs would require in those financial statements (paragraph B2(j), Appendix B, AASB 1);
- (b) if the parent acquired the subsidiary in a business combination before the date of transition to Australian equivalents to IFRSs, the parent recognises goodwill, as explained in IG Example 6; or
- (c) if the parent did not acquire the subsidiary in a business combination because it created the subsidiary, the parent does not recognise goodwill.

IG28 When a first-time adopter adjusts the carrying amounts of assets and liabilities of its subsidiaries in preparing its opening Australian-equivalents-to-IFRSs balance sheet, this may affect minority interests and deferred tax.

IG29 IG Examples 8 and 9 illustrate paragraphs 24 and 25 of AASB 1, which address cases where a parent and its subsidiary become first-time adopters at different dates.

AIG29.1 Australian-incorporated subsidiaries are subject to the same reporting requirements as Australian parent entities and will not be able to choose to adopt at different dates. Accordingly, the illustrations in IG Examples 8 and 9 refer to timing differences that may arise between an Australian parent and a foreign subsidiary, incorporated outside Australia.

**IG Example 8: Parent adopts Australian equivalents to IFRSs before foreign subsidiary**

**BACKGROUND**

Parent N presents its (consolidated) first Australian-equivalents-to-IFRSs financial report in 2005/6. Its foreign subsidiary O, wholly owned by parent N since formation, prepares information under Australian equivalents to IFRSs for internal consolidation purposes from that date, but subsidiary O does not present its first IFRS financial report until 2007/8.

**APPLICATION OF REQUIREMENTS**

If subsidiary O applies paragraph 24(a) of IFRS 1, the carrying amounts of its assets and liabilities are the same in both its opening IFRS balance sheet at 1 July 2006 and parent N's consolidated balance sheet (except for adjustments for consolidation procedures) and are based on parent N's date of transition to Australian equivalents to IFRSs.

Alternatively, subsidiary O may, under paragraph 24(b) of IFRS 1, measure all its assets or liabilities based on its own date of transition to IFRSs (1 July 2006). However, the fact that subsidiary O becomes a first-time adopter in 2007/8 does not change the carrying amounts of its assets and liabilities in parent N's consolidated financial statements.

**IG Example 9: Foreign subsidiary adopts IFRSs before parent**

**BACKGROUND**

Parent P presents its (consolidated) first Australian-equivalents-to-IFRSs financial report in 2005/6. Its foreign subsidiary Q, wholly owned by parent P since formation, presented its first IFRS financial report in 2003/4. Until 2005/6, subsidiary Q prepared information for internal consolidation purposes under parent P's previous GAAP.

**APPLICATION OF REQUIREMENTS**

The carrying amounts of subsidiary Q's assets and liabilities at 1 July 2004 are the same in both parent P's (consolidated) opening Australian-equivalents-to-IFRSs balance sheet and subsidiary Q's financial statements (except for adjustments for consolidation procedures) and are based on subsidiary Q's date of transition to IFRSs. The fact that parent P becomes a first-time adopter in 2005/6 does not change those carrying amounts (paragraph 25 of AASB 1).

IG30 Paragraphs 24 and 25 of AASB 1 do not override the following requirements:

- (a) to apply Appendix B of AASB 1 to assets acquired, and liabilities assumed, in a business combination that occurred before the acquirer's date of transition to Australian equivalents to IFRSs. However, the acquirer applies paragraph 25 to new assets acquired, and liabilities assumed, by the acquiree after that business combination and still held at the acquirer's date of transition to Australian equivalents to IFRSs;
- (b) to apply the rest of AASB 1 in measuring all assets and liabilities for which paragraphs 24 and 25 are not relevant; and
- (c) to give all disclosures required by AASB 1 as of the first-time adopter's own date of transition to Australian equivalents to IFRSs.

IG31 Paragraph 24 of AASB 1 applies if a subsidiary becomes a first-time adopter later than its parent, for example if the subsidiary previously prepared a reporting package under Australian equivalents to IFRSs for consolidation purposes but did not present a full financial report under IFRSs. This may be relevant not only when a subsidiary's reporting package complies fully with the recognition and measurement requirements of Australian equivalents to IFRSs, but also when it is adjusted centrally for matters such as post-balance sheet events review and central allocation of pension costs. For the disclosure required by paragraph 41 of AASB 1, adjustments made centrally to an unpublished reporting package are not corrections of errors. However, paragraph 24 does not permit that subsidiary to ignore misstatements that are immaterial to the consolidated financial statements of its parent but material to its own financial statements.

### ***AASB 129 Financial Reporting in Hyperinflationary Economies***

IG32 An entity complies with AASB 121 *The Effects of Changes in Foreign Exchange Rates* in determining its functional currency and presentation currency. When the entity prepares its opening Australian-equivalents-to-IFRSs balance sheet, it applies AASB 129 to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

IG33 An entity may elect to use the fair value of an item of property, plant and equipment at the date of transition to Australian equivalents to IFRSs as its deemed cost at that date (paragraph 16 of AASB 1), in

which case it gives the disclosures required by paragraph 44 of AASB 1.

IG34 If an entity elects to use the exemptions in paragraphs 16-19 of AASB 1, it applies AASB 129 to periods after the date for which the revalued amount or fair value was determined.

### ***AASB 132 Financial Instruments: Disclosure and Presentation***

IG35 In its opening Australian-equivalents-to-IFRSs balance sheet, an entity applies the criteria in AASB 132 to classify financial instruments issued (or components of compound instruments issued) as either financial liabilities or equity instruments in accordance with the substance of the contractual arrangement when the instrument first satisfied the recognition criteria in AASB 132 (paragraphs 15 and 30), without considering events after that date (other than changes to the terms of the instruments).

IG36 For compound instruments outstanding at the date of transition to Australian equivalents to IFRSs, an entity determines the initial carrying amounts of the components on the basis of circumstances existing when the instrument was issued (AASB 132, paragraph 30). An entity determines those carrying amounts using the version of AASB 132 effective at the reporting date for its first Australian-equivalents-to-IFRSs financial report. If the liability component is no longer outstanding at the date of transition to Australian equivalents to IFRSs, a first-time adopter need not separate the initial equity component of the instrument from the cumulative interest accreted on the liability component (paragraph 23 of AASB 1).

### ***AASB 134 Interim Financial Reporting***

IG37 AASB 134 applies if an entity is required, or elects, to present an interim financial report in accordance with Australian equivalents to IFRSs. Accordingly, neither AASB 134 nor AASB 1 requires an entity:

- (a) to present interim financial reports that comply with AASB 134; or
- (b) to prepare new versions of interim financial reports presented under previous GAAP. However, if an entity does prepare an interim financial report under AASB 134 for part of the period covered by its first Australian-equivalents-to-IFRSs financial report, the entity restates the comparative information presented

in that report so that it complies with Australian equivalents to IFRSs.

IG38 An entity applies AASB 1 in each interim financial report that it presents under AASB 134 for part of the period covered by its first Australian-equivalents-to-IFRSs financial report. In particular, paragraph 45 of AASB 1 requires an entity to disclose various reconciliations (see IG Example 10).

#### **IG Example 10: Interim financial reporting**

##### **BACKGROUND**

Entity R's first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006, and its first interim financial report under AASB 134 is for the quarter ended 30 September 2005. Entity R prepared previous GAAP annual financial reports for the year ended 30 June 2005, and prepared quarterly reports throughout 2004/5.

##### **APPLICATION OF REQUIREMENTS**

In each quarterly interim financial report for 2005/6, entity R includes reconciliations of:

- (a) its equity under previous GAAP at the end of the comparable quarter of 2004/5 to its equity under Australian equivalents to IFRSs at that date; and
- (b) its profit or loss under previous GAAP for the comparable quarter of 2004/5 (current and year-to-date) to its profit or loss under Australian equivalents to IFRSs.

In addition to the reconciliations required by (a) and (b) and the disclosures required by AASB 134, entity R's interim financial report for the first quarter of 2005/6 includes reconciliations of (or a cross-reference to another published document that includes these reconciliations):

- (a) its equity under previous GAAP at 1 July 2004 and 30 June 2005 to its equity under Australian equivalents to IFRSs at those dates; and
- (b) its profit or loss for 2004/5 under previous GAAP to its profit or loss for 2004/5 under Australian equivalents to IFRSs.

*continued*

Each of the above reconciliations gives sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. Entity R also explains the material adjustments to the cash flow statement.

If entity R becomes aware of errors made under previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies.

If entity R did not, in its most recent annual financial report under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial reports for 2005/6 disclose that information or include a cross-reference to another published document that includes it (paragraph 46 of AASB 1).

### ***AASB 136 Impairment of Assets and AASB 137 Provisions, Contingent Liabilities and Contingent Assets***

IG39 An entity applies AASB 136 in:

- (a) determining whether any impairment loss exists at the date of transition to Australian equivalents to IFRSs; and
- (b) measuring any impairment loss that exists at that date, and reversing any impairment loss that no longer exists at that date. An entity's first Australian-equivalents-to-IFRSs financial report includes the disclosures that AASB 136 would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Australian equivalents to IFRSs (paragraph 39(c) of AASB 1).

IG40 The estimates used to determine whether an entity recognises an impairment loss or provision (and to measure any such impairment loss or provision) at the date of transition to Australian equivalents to IFRSs are consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 31 and 32 of AASB 1). The entity reports the impact of any later revisions to those estimates as an event of the period in which it makes the revisions.

IG41 In assessing whether it needs to recognise an impairment loss or provision (and in measuring any such impairment loss or provision) at the date of transition to Australian equivalents to IFRSs, an entity may need to make estimates for that date that were not necessary under its previous GAAP. Such estimates and assumptions do not reflect conditions that arose after the date of transition to Australian equivalents to IFRSs (paragraph 33 of AASB 1).

IG42 [Deleted by the AASB]

IG43 AASB 136 requires the reversal of impairment losses in some cases. If an entity's opening Australian-equivalents-to-IFRSs balance sheet reflects impairment losses, the entity recognises any later reversal of those impairment losses in the income statement (except when AASB 136 requires the entity to treat that reversal as a revaluation). This applies to both impairment losses recognised under previous GAAP and additional impairment losses recognised on transition to Australian equivalents to IFRSs.

### ***AASB 138 Intangible Assets***

IG44 An entity's opening Australian-equivalents-to-IFRSs balance sheet:

- (a) excludes all intangible assets and other intangible items that do not meet the criteria for recognition under AASB 138 at the date of transition to Australian equivalents to IFRSs; and
- (b) includes all intangible assets that meet the recognition criteria in AASB 138 at that date, except for intangible assets acquired in a business combination that were not recognised in the acquirer's consolidated balance sheet under previous GAAP and also would not qualify for recognition under AASB 138 in the separate balance sheet of the acquiree (see paragraph B2(f), Appendix B of AASB 1).

IG45 The criteria in AASB 138 require an entity to recognise an intangible asset if, and only if:

- (a) it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost of the asset can be measured reliably.

AASB 138 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

IG46 Under paragraphs 65 and 71 of AASB 138, an entity capitalises the costs of creating internally generated intangible assets prospectively from the date when the recognition criteria are met. AASB 138 does not permit an entity to use hindsight to conclude retrospectively that these recognition criteria are met. Therefore, even if an entity concludes retrospectively that a future inflow of economic benefits from an internally generated intangible asset is probable and the entity is able to reconstruct the costs reliably, AASB 138 prohibits it from capitalising the costs incurred before the date when the entity both:

- (a) concludes, based on an assessment made and documented at the date of that conclusion, that it is probable that future economic benefits from the asset will flow to the entity; and
- (b) has a reliable system for accumulating the costs of internally generated intangible assets when, or shortly after, they are incurred.

IG47 If an internally generated intangible asset qualifies for recognition at the date of transition to Australian equivalents to IFRSs, an entity recognises the asset in its opening Australian-equivalents-to-IFRSs balance sheet even if it had recognised the related expenditure as an expense under previous GAAP. If the asset does not qualify for recognition under AASB 138 until a later date, its cost is the sum of the expenditure incurred from that later date.

IG48 The criteria discussed in paragraph IG45 also apply to an intangible asset acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits. Furthermore, as explained in paragraph 26 of AASB 138, the cost of a separately acquired intangible asset can usually be measured reliably.

IG49 For an intangible asset acquired in a business combination before the date of transition to Australian equivalents to IFRSs, its carrying amount under previous GAAP immediately after the business combination is its deemed cost under Australian equivalents to IFRSs at that date (paragraph B2(e), Appendix B, AASB 1). If that carrying amount was zero, the acquirer does not recognise the intangible asset in its consolidated opening Australian-equivalents-to-IFRSs balance sheet, unless it would qualify under AASB 138, applying the criteria discussed in paragraphs IG45-IG48, for recognition at the date of transition to Australian equivalents to IFRSs in the balance sheet of the acquiree (paragraph B2(f), Appendix B, AASB 1). If those recognition criteria are met, the acquirer measures the asset on the basis that AASB 138 would require in the balance sheet of the acquiree. The

resulting adjustment affects goodwill (paragraph B2(g)(i), Appendix B, AASB 1).

IG50 A first-time adopter may elect to use the fair value of an intangible asset at the date of an event such as a privatisation or initial public offering as its deemed cost at the date of that event (paragraph 19 of AASB 1), provided that the intangible asset qualifies for recognition under AASB 138 (paragraph 10 of AASB 1). In addition, if, and only if, an intangible asset meets both the recognition criteria in AASB 138 (including reliable measurement of original cost) and the criteria in AASB 138 for revaluation (including the existence of an active market), a first-time adopter may elect to use one of the following amounts as its deemed cost (paragraph 18 of AASB 1):

- (a) fair value at the date of transition to Australian equivalents to IFRSs (paragraph 16 of AASB 1), in which case the entity gives the disclosures required by paragraph 44 of AASB 1; or
- (b) a revaluation under previous GAAP that meets the criteria in paragraph 17 of AASB 1.

IG51 If an entity's amortisation methods and rates under previous GAAP would be acceptable under Australian equivalents to IFRSs, the entity does not restate the accumulated amortisation in its opening Australian-equivalents-to-IFRSs balance sheet. Instead, the entity accounts for any change in estimated useful life or amortisation pattern prospectively from the period when it makes that change in estimate (paragraph 31 of AASB 1 and paragraph 104 of AASB 138). However, in some cases, an entity's amortisation methods and rates under previous GAAP may differ from those that would be acceptable under Australian equivalents to IFRSs. If those differences have a material effect on the financial statements, the entity adjusts the accumulated amortisation in its opening Australian-equivalents-to-IFRSs balance sheet retrospectively so that it complies with Australian equivalents to IFRSs (paragraph 31 of AASB 1).

### ***AASB 139 Financial Instruments: Recognition and Measurement***

IG52 An entity recognises and measures all financial assets and financial liabilities in its opening Australian-equivalents-to-IFRSs balance sheet in accordance with AASB 139, except as specified in paragraphs 27-30 of AASB 1, which address derecognition and hedge accounting, and paragraph 36A, which permits an exemption from restating comparative information.

## **Recognition**

IG53 An entity recognises all financial assets and financial liabilities (including all derivatives) that qualify for recognition under AASB 139 and have not yet qualified for derecognition under AASB 139, except non-derivative financial assets and non-derivative financial liabilities derecognised under previous GAAP before 1 January 2004, to which the entity does not choose to apply paragraph 27A (see paragraphs 27 and 27A of AASB 1). For example, an entity that does not apply paragraph 27A does not recognise assets transferred in a securitisation, transfer or other derecognition transaction that occurred before 1 January 2004 if those transactions qualified for derecognition under previous GAAP. However, if the entity uses the same securitisation arrangement or other derecognition arrangements for further transfers after 1 January 2004, those further transfers qualify for derecognition only if they meet the derecognition criteria of AASB 139.

IG54 An entity does not recognise financial assets and financial liabilities that do not qualify for recognition under AASB 139, or have already qualified for derecognition under AASB 139.

## **Embedded derivatives**

IG55 When AASB 139 requires an entity to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in AASB 139 reflect circumstances at that date (paragraph 11, AASB 139). If the entity cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it treats the entire combined contract as a financial instrument held for trading (paragraph 12, AASB 139). This results in fair value measurement (except when the entity cannot determine a reliable fair value, see paragraph 46(c), AASB 139), with changes in fair value recognised in profit or loss.

## **Measurement**

IG56 In preparing its opening Australian-equivalents-to-IFRSs balance sheet, an entity applies the criteria in AASB 139 to identify those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost. In particular:

- (a) to comply with paragraph 51, AASB 139, classification of financial assets as held-to-maturity investments relies on a designation made by the entity in applying AASB 139 reflecting the entity's intention and ability at the date of transition to Australian equivalents to IFRSs. It follows that sales or transfers

of held-to-maturity investments before the date of transition to Australian equivalents to IFRSs do not trigger the 'tainting' rules in paragraph 9, AASB 139;

- (b) to comply with paragraph 9, AASB 139, the category of 'loans and receivables' refers to the circumstances when the financial asset first satisfied the recognition criteria in AASB 139;
- (c) under paragraph 9, AASB 139, derivative financial assets and derivative financial liabilities are always deemed held for trading (except for a derivative that is a designated and effective hedging instrument). The result is that an entity measures all derivative financial assets and derivative financial liabilities at fair value;
- (d) to comply with AASB 139, paragraph 50, an entity classifies a non-derivative financial asset or non-derivative financial liability in its opening Australian-equivalents-to-IFRSs balance sheet as at fair value through profit or loss only if the asset or liability was:
  - (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
  - (ii) at the date of transition to Australian equivalents to IFRSs, part of a portfolio of identified financial instruments that were managed together and for which there was evidence of a recent actual pattern of short-term profit-taking; or
  - (iii) designated as at fair value through profit or loss at the date of transition to Australian equivalents to IFRSs, for an entity that presents its first Australian-equivalents-to-IFRSs financial report for an annual period beginning on or after 1 January 2006; or
  - (iv) designated as at fair value through profit or loss at the start of its first Australian-equivalents-to-IFRSs reporting period, for an entity that presents its first Australian-equivalents-to-IFRSs financial report for an annual period beginning before 1 January 2006 and applies paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the amendments made to paragraphs 9, 12 and 13 of AASB 139 by AASB 2005-4 *Amendments to Australian Accounting Standards*. If the entity restates comparative information for AASB 139 it shall restate the comparative information only if the financial assets or financial liabilities designated at the start of its first Australian-equivalents-to-IFRSs reporting period would have met the criteria for such designation in paragraph 9(b)(i), 9(b)(ii) or 11A of AASB 139 at the date of transition to Australian

equivalents to IFRSs or, if acquired after the date of transition to Australian equivalents to IFRSs, would have met the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A at the date of initial recognition. For groups of financial assets, financial liabilities or both that are designated in accordance with paragraph 9(b)(ii) of AASB 139 at the start of the first Australian-equivalents-to-IFRSs reporting period, the comparative financial statements should be restated for all the financial assets and financial liabilities within the groups at the date of transition to Australian equivalents to IFRSs even if individual financial assets or liabilities within a group were derecognised during the comparative period; and

- (e) to comply with paragraph 9, AASB 139, available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and those non-derivative financial assets that are not in any of the previous categories.

IG57 For those financial assets and financial liabilities measured at amortised cost in the opening Australian-equivalents-to-IFRSs balance sheet, an entity determines their cost on the basis of circumstances existing when the assets and liabilities first satisfied the recognition criteria in AASB 139. However, if the entity acquired those financial assets and financial liabilities in a past business combination, their carrying amount under previous GAAP immediately following the business combination is their deemed cost under Australian equivalents to IFRSs at that date (paragraph B2(e), Appendix B, AASB 1).

IG58 An entity's estimates of loan impairments at the date of transition to Australian equivalents to IFRSs are consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 31 of AASB 1). The entity treats the impact of any later revisions to those estimates as impairment losses (or, if the criteria in AASB 139 are met, reversals of impairment losses) of the period in which it makes the revisions.

#### **Transition adjustments**

IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to Australian equivalents to IFRSs only to the extent that it results from adopting AASB 139. Because all derivatives, other than those that are designated and effective hedging instruments, are classified as held for trading, the differences between the previous

carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which this Standard is initially applied (other than for a derivative that is a designated and effective hedging instrument).

IG58B AASB 108 applies to adjustments resulting from changes in estimates. If an entity is unable to determine whether a particular portion of the adjustment is a transition adjustment or a change in estimate, it treats that portion as a change in accounting estimate under AASB 108, with appropriate disclosure (paragraphs 32-40, AASB 108).

IG59 An entity may, under its previous GAAP, have measured investments at fair value and recognised the revaluation gain directly in equity. If an investment is classified as at fair value through profit or loss, the pre-AASB 139 revaluation gain that had been recognised in equity is reclassified into retained earnings on initial application of AASB 139. If, on initial application of AASB 139, an investment is classified as available for sale, then the pre-AASB 139 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on the available-for-sale financial asset in that separate component of equity until the investment is impaired, sold, collected or otherwise disposed of. On subsequent derecognition or impairment of the available-for-sale financial asset, the entity transfers to profit or loss the cumulative gain or loss remaining in equity (paragraph 55(b), AASB 139).

### **Hedge accounting**

IG60 Paragraphs 28-30 of AASB 1 deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of transition to Australian equivalents to IFRSs if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.

IG60A An entity may, under its previous GAAP, have deferred or not recognised gains and losses on a fair value hedge of a hedge item that is not measured at fair value. For such a fair value hedge, an entity adjusts the carrying amount of the hedged item at the date of transition to Australian equivalents to IFRSs. The adjustment is the lower of:

- (a) that portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk and was not recognised under previous GAAP; and

- (b) that portion of the cumulative change in the fair value of the hedging instrument that reflects the designated hedged risk and, under previous GAAP, was either:
  - (i) not recognised; or
  - (ii) deferred in the balance sheet as an asset or liability.

IG60B An entity may, under its previous GAAP, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of transition to Australian equivalents to IFRSs, the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognised in equity. Any net cumulative gain or loss that has been reclassified to equity on initial application of AASB 139 remains in equity until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects profit or loss or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge under AASB 139, hedge accounting is no longer appropriate starting from the date of transition to Australian equivalents to IFRSs.

### ***AASB 140 Investment Property***

IG61 An entity that adopts the fair value model in AASB 140 measures its investment property at fair value at the date of transition to Australian equivalents to IFRSs.

IG62 An entity that adopts the cost model in AASB 140 applies AASB 116 (see paragraphs IG7-IG13 on property, plant and equipment).

AIG62.1 When an entity adopts the cost model for investment property and previously carried that property at cost without providing for depreciation, it is required to adjust for depreciation from the date of the acquisition (see paragraph IG9). Similarly, when an entity changes from a revaluation system or uses a deemed cost as permitted by paragraphs 16-19 of AASB 1, any depreciation backlog for the period between the date of the most recent valuation and the date of transition is recognised.

### ***AASB 141 Agriculture***

AIG62.2 At the date of transition to Australian equivalents to IFRSs, an entity that measured biological assets at net market value under

previous GAAP shall continue to measure these biological assets at their fair value less estimated point-of-sale costs in accordance with AASB 141. The rebuttable presumption in paragraph 30 of AASB 141, that allows biological assets to be carried at cost less accumulated depreciation and accumulated impairment losses where the fair value of the biological asset cannot be measured reliably, can only be rebutted on initial recognition.

## **Explanation of transition to Australian equivalents to IFRSs**

IG63 Paragraphs 39(a) and (b), 40 and 41 of AASB 1 require a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet, income statement and, if applicable, cash flow statement. Paragraph 39(a) and (b) requires specific reconciliations of equity and profit or loss. IG Example 11 shows one way of satisfying these requirements.

### **IG Example 11: Reconciliation of equity and profit or loss**

#### **BACKGROUND**

An entity first adopted Australian equivalents to IFRSs in 2005/6, with a date of transition to Australian equivalents to IFRSs of 1 July 2004. Its last financial report under previous GAAP was for the year ended 30 June 2005.

#### **APPLICATION OF REQUIREMENTS**

The entity's first Australian-equivalents-to-IFRSs financial report includes the reconciliations and related notes shown below.

Among other things, this example includes a reconciliation of equity at the date of transition to Australian equivalents to IFRSs (1 July 2004). AASB 1 also requires a reconciliation at the end of the last period presented under previous GAAP (not included in this example).

In practice, it may be helpful to include cross-references to accounting policies and supporting analyses that give further explanation of the adjustments shown in the reconciliations below.

If a first-time adopter becomes aware of errors made under previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies (paragraph 41 of AASB 1). This example does not illustrate disclosure of a correction of an error.

*continued*

**NOTE 2: RECONCILIATION OF EQUITY AT 1 JULY 2004***(date of transition to Australian equivalents to IFRSs)*

<i>Note</i>	<i>Previous GAAP 1 Jul 2004</i>	<i>Effect of transition to Australian equivalents to IFRSs</i>	<i>Australian equivalents to IFRSs 1 Jul 2004</i>
	748	-	748
	3,710	-	3,710
2.1	333	431	764
	2,962	-	2,962
	<b>7,753</b>	<b>431</b>	<b>8,184</b>
2.2	3,471	420	3,891
	8,299	-	8,299
2.3	1,220	150	1,370
2.3	208	(150)	58
	<b>13,198</b>	<b>420</b>	<b>13,618</b>
	<b>20,951</b>	<b>851</b>	<b>21,802</b>
	4,124	-	4,124
	42	-	42
2.4	250	(250)	-
	<b>4,416</b>	<b>(250)</b>	<b>4,166</b>
	9,396	-	9,396
2.5	-	66	66
2.6	579	310	889
	<b>9,975</b>	<b>376</b>	<b>10,351</b>
	<b>14,391</b>	<b>126</b>	<b>14,517</b>
	<b>6,560</b>	<b>725</b>	<b>7,285</b>
	1,500	-	1,500
2.2	-	294	294
2.1	-	302	302
2.7	5,060	129	5,189
	<b>6,560</b>	<b>725</b>	<b>7,285</b>

*continued*

**Notes to the reconciliation of equity at 1 July 2004:**

- 2.1 Unrealised gains of 431 on unmatured forward foreign exchange contracts are recognised under Australian equivalents to IFRSs, but were not recognised under previous GAAP. The resulting gains of 302 (431, less related deferred tax of 129) are included in the hedging reserve because the contracts hedge forecast sales.
- 2.2 Financial assets are all classified as available-for-sale under Australian equivalents to IFRSs and are carried at their fair value of 3,891. They were carried at cost of 3,471 under previous GAAP. The resulting gains of 294 (420, less related deferred tax of 126) are included in the other reserves.
- 2.3 Intangible assets under previous GAAP included 150 for items that are transferred to goodwill because they do not qualify for recognition as intangible assets under Australian equivalents to IFRSs.
- 2.4 A restructuring provision of 250 relating to a detailed formal plan drawn up in the three months following the date of a business acquisition was recognised under previous GAAP, but does not qualify for recognition as a liability under Australian equivalents to IFRSs.
- 2.5 A pension liability of 66 is recognised under Australian equivalents to IFRSs, but was not recognised under previous GAAP, which used a cash basis.

- 2.6 The above changes increased the deferred tax liability as follows:

Other reserves (note 2.2)	126
Hedging reserve (note 2.1)	129
Retained earnings	<u>55</u>
Increase in deferred tax liability	<u>310</u>

Because the tax base at 1 July 2004 of the items reclassified from intangible assets to goodwill (note 2.3) equalled their carrying amount at that date, the reclassification did not affect deferred tax liabilities.

- 2.7 The adjustments to retained earnings are as follows:

Pension liability (note 2.5)	(66)
Restructuring provision (note 2.4)	250
Tax effect of the above	<u>(55)</u>
Total adjustment to retained earnings	<u>129</u>

*continued*

<b>NOTE 3: RECONCILIATION OF PROFIT OR LOSS FOR 2004/5</b>				
<i>Note</i>	<i>year end 30 June 2005</i>	<i>Previous GAAP</i>	<i>Effect of transition to Australian equivalents to IFRSs</i>	<i>Australian equivalents to IFRSs</i>
	Revenue	20,910	-	20,910
3.1	Cost of Sales	(15,283)	(50)	(15,333)
	Gross Profit	5,627	(50)	5,577
3.1	Distribution costs	(1,907)	(30)	(1,937)
3.1	Administration expenses	(2,842)	(50)	(2,892)
3.2	Restructuring expense	-	(250)	(250)
	Finance income	1,446	-	1,446
	Finance costs	(1,902)	-	(1,902)
	Profit before income tax	422	(380)	42
3.3	Tax expense	(158)	114	(44)
	Profit (loss)	264	(266)	(2)

**Notes to the reconciliation of profit or loss for 2004/5:**

- 3.1 A pension liability is recognised under Australian equivalents to IFRSs, but was not recognised under previous GAAP. The pension liability increased by 130 during 2004/5, from 66 at 1 July 2004 to 196 at 30 June 2005. This caused increases in cost of sales (50), distribution costs (30) and administrative expenses (50).
- 3.2 A restructuring provision of 250 was recognised under previous GAAP at 1 July 2004, but did not qualify for recognition under Australian equivalents to IFRSs at the date of transition (see note 2.4). However, in the year ended 30 June 2005, the provision met the recognition criteria and this increased expenses for 2004/5 under Australian equivalents to IFRSs.
- 3.3 Adjustments 3.1 and 3.2 above lead to a reduction of 114 in deferred tax expense.

**NOTE 4: EXPLANATION OF MATERIAL ADJUSTMENTS TO THE CASH FLOW STATEMENT FOR 2004/5**

There are no material differences between the cash flow statement presented under Australian equivalents to IFRSs and the cash flow statement presented under previous GAAP.

## ***AASB 2 Share-based Payment***

IG64 A first-time adopter is encouraged, but not required, to apply AASB 2 *Share-based Payment* to equity instruments that were granted after 7 November 2002 that vested before the later of (a) the date of transition to Australian equivalents to IFRSs and (b) 1 January 2005.

IG65 For example, if an entity's date of transition to Australian equivalents to IFRSs is 1 July 2004, the entity applies AASB 2 to shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested at 1 January 2005. Conversely, if an entity's date of transition to Australian equivalents to IFRSs is 1 July 2010, the entity applies AASB 2 to shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested at 1 July 2010.

## **Life insurance**

AIG100.1 A life insurer, under the 1998 version of AASB 1038 *Life Insurance Business*, recognises as a separate asset, in its consolidated financial statements, the excess of the net market values of interests in subsidiaries over the net amount (the "EMVONA asset") of the assets and liabilities of those subsidiaries that are recognised in the consolidated financial statements.

AIG100.2 The EMVONA asset is inconsistent with the requirements of AASB 127 *Consolidated and Separate Financial Statements* (which requires line-by-line consolidation of all subsidiaries) and AASB 138 *Intangible Assets* (to the extent that the EMVONA asset comprises internally generated goodwill). AASB 138 allows the recognition of acquired goodwill but does not allow the recognition of internally generated goodwill. AASB 138 notes that differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity and such differences do not represent the cost of intangible assets controlled by the entity. The EMVONA asset is, therefore, not allowable under the revised AASB 1038 *Life Insurance Contracts* (issued 2004).

AIG100.3 On transition to the revised version of AASB 1038 (issued 2004), the EMVONA asset is reversed against retained earnings. A life insurer would subsequently determine the amount of acquired goodwill that arose on acquisition of each subsidiary, assess this acquired goodwill for impairment under AASB 136

and recognise acquired goodwill less accumulated impairment losses in retained earnings. This is done at the start of the comparative period since the choice of not restating comparative information (in paragraph 36A(a) of AASB 1) applies only to insurance contracts.

**AIG Example A100: Life insurance – EMVONA asset**

**BACKGROUND**

Life insurer A’s first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006. As at 30 June 2004, the EMVONA asset is \$20m. On initial recognition of the subsidiary, this included acquired goodwill of \$7m.

**APPLICATION OF REQUIREMENTS**

Irrespective of whether life insurer A chooses, in accordance with the exemptions in paragraph 36A of AASB 1, not to restate comparative information relating to its insurance contracts in its financial report for the period ending 30 June 2006, it will not include \$20m for the EMVONA asset in its comparative information. The date of transition in respect of this asset is 1 July 2004 (even though the date of transition for insurance contracts covered by paragraph 36A(a) may be 1 July 2005). Life insurer A reverses the EMVONA asset against retained earnings on 1 July 2004 (see journal entry 1 below).

In respect of the purchased goodwill estimated at \$7m at the date of acquisition of the subsidiary, life insurer A decides to recognise all business combinations from that date in accordance with AASB 3 *Business Combinations*. It assesses the \$7m goodwill relating to that subsidiary under AASB 138 *Intangible Assets* and, in accordance with AASB 136 *Impairment of Assets*, determines that accumulated impairment losses as at 1 July 2004 are \$2m. It reinstates \$5m goodwill as an asset (see journal entry 2 below).

Consolidated retained earnings as at 1 July 2004 would be adjusted as follows:

1.	DR Retained earnings	\$20m	
	CR EMVONA asset		\$20m
	<i>To reverse the EMVONA asset</i>		
2.	DR Intangible asset – acquired goodwill	\$5m	
	CR Retained earnings		\$5m
	<i>To reinstate acquired goodwill less accumulated impairment losses allowable under AASB 136 (\$7m less \$2m impairment)</i>		

## UIG Interpretations Corresponding to IASB Interpretations

UIG Interpretations corresponding to the IASB Interpretations are identified in AASB 1048 *Interpretation and Application of Standards*.

### Changes in existing decommissioning, restoration and similar liabilities

IG201 AASB 116 *Property, Plant and Equipment* requires the cost of an item of property, plant and equipment to include the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires the liability, both initially and subsequently, to be measured at the amount required to settle the present obligation at the reporting date, reflecting a current market-based discount rate.

IG202 UIG Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, identified in AASB 1048 as corresponding to IFRIC 1, requires that, subject to specified conditions, changes in an existing decommissioning, restoration or similar liability are added to or deducted from the cost of the related asset. The resulting depreciable amount of the asset is depreciated over its useful life, and the periodic unwinding of the discount on the liability is recognised in profit or loss as it occurs.

IG203 Paragraph 25E of AASB 1 provides a transitional exemption. Instead of retrospectively accounting for changes in this way, entities can include in the depreciated cost of the asset an amount calculated by discounting the liability at the date of transition to Australian equivalents to IFRSs back to, and depreciating it from, when the liability was first incurred. IG Example 201 illustrates the effect of applying this exemption, assuming that the entity accounts for its property, plant and equipment using the cost model.

**IG Example 201: Changes in existing decommissioning, restoration and similar liabilities**

**BACKGROUND**

An entity's first Australian-equivalents-to-IFRSs financial report has a reporting date of 30 June 2006 and includes comparative information for 2004/05 only. Its date of transition to Australian equivalents to IFRSs is therefore 1 July 2004.

The entity acquired an energy plant on 1 July 2001, with a life of 40 years.

As at the date of transition to Australian equivalents to IFRSs, the entity estimates the decommissioning cost in 37 years' time to be 470, and estimates that the appropriate risk-adjusted discount rate for the liability is 5 per cent. It judges that the appropriate discount rate has not changed since 1 July 2001.

**APPLICATION OF REQUIREMENTS**

The decommissioning liability recognised at the transition date is 77 (470 discounted for 37 years at 5 per cent).

Discounting this liability back for a further three years to 1 July 2001 gives an estimated liability at acquisition, to be included in the cost of the asset, of 67. Accumulated depreciation on the asset is  $67 \times 3/40 = 5$ .

The amounts recognised in the opening Australian-equivalents-to-IFRSs balance sheet on the date of transition to Australian equivalents to IFRSs (1 July 2004) are, in summary:

Decommissioning cost included in cost of plant	67
Accumulated depreciation	(5)
Decommissioning liability	<u>(77)</u>
Net assets/retained earnings	<u>(15)</u>

**Determining whether an arrangement contains a lease**

IG204 UIG Interpretation 4 *Determining whether an Arrangement contains a Lease*, identified in AASB 1048 as corresponding to IFRIC 4, specifies criteria for determining, at the inception of an arrangement, whether the arrangement contains a lease. It also specifies when an arrangement should be reassessed subsequently.

IG205 Paragraph 25F of AASB 1 provides a transitional exemption. Instead of determining retrospectively whether an arrangement contains a lease at the inception of the arrangement and subsequently

reassessing that arrangement as required in the periods before transition to Australian equivalents to IFRSs, entities may determine whether arrangements in existence on the date of transition to Australian equivalents to IFRSs contain leases by applying paragraphs 6-9 of UIG Interpretation 4 to those arrangements on the basis of facts and circumstances existing on that date.

**IG Example 202: Determining whether an arrangement contains a lease**

**BACKGROUND**

An entity's first Australian-equivalents-to-IFRSs financial report has a reporting date of 31 December 2005 and includes comparative information for 2004 only. Its date of transition to Australian equivalents to IFRSs is therefore 1 January 2004.

On 1 January 1995, the entity entered into a take-or-pay arrangement to supply gas. On 1 January 2000, there was a change in the contractual terms of the arrangement.

**APPLICATION OF REQUIREMENTS**

On 1 January 2004, the entity may determine whether the arrangement contains a lease by applying the criteria in paragraphs 6-9 of UIG Interpretation 4 on the basis of facts and circumstances existing on that date. Alternatively, the entity applies those criteria on the basis of facts and circumstances existing on 1 January 1995 and reassesses the arrangement on 1 January 2000. If the arrangement is determined to contain a lease, the entity follows the guidance in paragraphs IG14-IG16.