

Accounting Standard

AASB 2005-5

June 2005

Amendments to Australian Accounting Standards

[AASB 1 & AASB 139]



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standard AASB 2005-5 <i>Amendments to Australian Accounting Standards</i> is set out in paragraphs 1 – 13. All the paragraphs have equal authority.

PREFACE

Reasons for Issuing AASB 2005-5

This Standard makes consequential amendments to the following Australian Accounting Standards:

- (a) AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*; and
- (b) AASB 139 *Financial Instruments: Recognition and Measurement*.

The amendments arise from the approval in June 2005 of Urgent Issues Group (UIG) Interpretations 4 *Determining whether an Arrangement contains a Lease* and 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, which are the Australian equivalents to International Financial Reporting Interpretations Committee (IFRIC) Interpretations 4 and 5 respectively. The amendments are consistent with those made by the IFRIC Interpretations to International Financial Reporting Standards (IFRSs).

Main Features of this Standard

Application Date

The application date of this Standard is linked to the application date of UIG Interpretations 4 and 5. Accordingly, this Standard is applicable to annual reporting periods beginning on or after 1 January 2006. When an entity early adopts UIG Interpretation 4 or 5 for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2006, this Standard is also applied as appropriate for that earlier period.

Change from AASB 1 (December 2004)

AASB 1 (revised in December 2004) generally requires prior period information, presented as comparative information, to be restated as if the requirements of a UIG Interpretation had always applied. The change made by this Standard is to include in AASB 1 an optional exemption from these requirements that allows a first-time adopter to determine whether an arrangement existing at the date of transition to Australian equivalents to IFRSs is, or contains, a lease on the basis of facts and circumstances at that date. Otherwise, the arrangement would have to be assessed as at its inception and subsequently reassessed as required by the Interpretation in the periods before transition to Australian equivalents to IFRSs.

Change from AASB 139 (May 2005)

The scope of AASB 139 (revised in May 2005) is amended by this Standard to exclude rights to reimbursement for expenditure required to settle either provisions recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* or liabilities that had been originally recognised as provisions in accordance with AASB 137. The effect of the amendment is that a contractual right to receive such reimbursement in the form of cash will be accounted for in the same way as other forms of rights to such reimbursement, rather than in accordance with AASB 139.

Consultation prior to Issuing this Standard

Public consultation was part of the process undertaken by the UIG prior to its decision to issue UIG Interpretations 4 and 5. Accordingly, there appeared no need for the AASB to undertake further public consultation in respect of this Standard. In making this Standard, the AASB was mindful of its obligations under section 334 of the *Corporations Act 2001*.

A Regulatory Impact Statement has not been prepared in connection with the issue of this Standard as the amendments it makes do not have a direct, or substantial indirect, effect on business or restrict competition, are of a minor or machinery nature and do not substantially alter existing arrangements.

ACCOUNTING STANDARD AASB 2005-5

The Australian Accounting Standards Board makes Accounting Standard AASB 2005-5 *Amendments to Australian Accounting Standards* under section 334 of the *Corporations Act 2001*.

Dated 9 June 2005

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 2005-5 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS*

Objective

1. The objective of this Standard is to make amendments to:
 - (a) AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*; and
 - (b) AASB 139 *Financial Instruments: Recognition and Measurement*;

as a consequence of the approval in June 2005 of UIG Interpretations 4 *Determining whether an Arrangement contains a Lease* and 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, identified in AASB 1048 *Interpretation and Application of Standards* as corresponding to IFRIC 4 and IFRIC 5 respectively.

Application

2. **This Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act 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.**
- 3. **This Standard applies to annual reporting periods beginning on or after 1 January 2006.**
- 4. **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2006 only when UIG Interpretation 4 or 5 as the case may be is also applied for the same annual reporting period. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to such annual reporting periods when an election has been made in accordance with subsection 334(5) of the Corporations Act.**
- 5. **When an entity early adopts UIG Interpretation 4 or 5, this Standard shall be applied as appropriate for that earlier period.**
- 6. This Standard will be registered on the Federal Register of Legislative Instruments together with its Explanatory Statement, in accordance with the *Legislative Instruments Act 2003*.

Amendments to AASB 1 arising from UIG Interpretation 4

- 7. In paragraph 12 of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the reference to paragraphs 13-25E is changed to 13-25G.
- 8. In paragraph 13 of AASB 1, subparagraphs (i) to (k) are amended to read as follows:
 - 13. An entity may elect to use one or more of the following exemptions:
 - ...
 - (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
 - ...

9. After paragraph 25E a new heading and paragraph 25F are inserted in AASB 1 as follows:

Leases

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.

10. In the Implementation Guidance accompanying AASB 1, after IG Example 201 the following heading, paragraphs and example are added:

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.

**Amendments to AASB 139 arising from
UIG Interpretation 5**

11. In paragraph 2 of AASB 139 *Financial Instruments: Recognition and Measurement*, subparagraph (h) is amended to delete the word “and” at the end, subparagraph (i) is amended to replace the full stop at the end with “; and”, and subparagraph (j) is inserted to read as follows:
 2. **This Standard shall be applied by all entities to all types of financial instruments except:**
 - ...
 - (j) **rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognises as a provision in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets, or for which, in an earlier period, it recognised a provision in accordance with AASB 137.**

12. The amendment of AASB 139 made by the preceding paragraph amends the scope of that Standard to exclude rights to reimbursement for expenditure required to settle:
 - (a) a provision recognised in accordance with AASB 137; or
 - (b) a liability that had been originally recognised as a provision in accordance with AASB 137, but that is no longer a provision because its timing or amount is no longer uncertain.
13. The effect of the amendment is that a contractual right to receive such reimbursement in the form of cash will be accounted for in the same way as other forms of rights to such reimbursement, rather than in accordance with AASB 139. The amendment arose in the context of rights to receive reimbursement subject to UIG Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, identified in AASB 1048 as corresponding to IFRIC 5.