

**Accounting Standard**

**AASB 2006-1**

January 2006

# **Amendments to Australian Accounting Standards**

**[AASB 121]**



**Australian Government**

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**Australian Accounting  
Standards Board**

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Australian Accounting Standard AASB 2006-1 *Amendments to Australian Accounting Standards* is set out in paragraphs 1 – 6. All the paragraphs have equal authority.

## **PREFACE**

### **Standards Amended by AASB 2006-1**

This Standard makes amendments to Australian Accounting Standard AASB 121 *The Effects of Changes in Foreign Exchange Rates*.

These amendments arise from the issue by the International Accounting Standards Board (IASB) of amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* in December 2005.

The ability of entities to claim compliance with IFRSs is not affected by the amendments made by this Standard.

### **Main Features of this Standard**

#### **Application Date**

This Standard is applicable to annual reporting periods ending on or after 31 December 2006 with early adoption permitted for annual reporting periods that begin on or after 1 January 2005.

#### **Main Requirements**

A requirement of AASB 121 (issued in July 2004) is that a monetary item can be part of the reporting entity's net investment in a foreign operation provided the monetary item is denominated in the functional currency of either the reporting entity or the foreign operation.

In December 2005 the IASB amended IAS 21 so that a monetary item can be denominated in any currency and still be part of the reporting entity's net investment in a foreign operation. This followed a consultation process in which the IASB issued a Draft Technical Correction for comment in September 2005. The AASB issued a Media Release drawing attention to the IASB's proposals and noted that the AASB would make the same amendments to AASB 121 as the IASB proposed to IAS 21, if the amendment went ahead. A number of Australian constituents participated in the consultation process and there was strong support for the proposals.

## **ACCOUNTING STANDARD AASB 2006-1**

The Australian Accounting Standards Board makes Accounting Standard AASB 2006-1 *Amendments to Australian Accounting Standards* under section 334 of the *Corporations Act 2001*.

Dated 18 January 2006

D.G. Boymal  
Chair – AASB

## **ACCOUNTING STANDARD AASB 2006-1**

### ***AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS***

#### **Objective**

1. The objective of this Standard is to make amendments to AASB 121 *The Effects of Changes in Foreign Exchange Rates*.

#### **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 reporting entity; and**
  - (c) **financial reports that are, or are held out to be, general purpose financial reports.**
3. **This Standard applies to annual reporting periods ending on or after 31 December 2006.**
4. **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to such annual reporting periods when an election has been made in accordance with subsection 334(5) of the Corporations Act. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**

## **Amendments to AASB 121**

### **Net investment in a foreign operation**

5. Paragraph 15A is added as follows:

15A The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 15 may be any subsidiary of the group. For example, an entity has two subsidiaries, A and B. Subsidiary B is a foreign operation. Subsidiary A grants a loan to Subsidiary B. Subsidiary A's loan receivable from Subsidiary B would be part of the entity's net investment in Subsidiary B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if Subsidiary A were itself a foreign operation.

### **Recognition of exchange difference**

6. Paragraph 33 is amended as follows:

33 When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 28. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (i.e. financial statements in which the foreign operation is consolidated or accounted for using the equity method).