

Accounting Standard

AASB 2007-6

June 2007

Amendments to Australian Accounting Standards arising from AASB 123

**[AASB 1, AASB 101, AASB 107,
AASB 111, AASB 116 & AASB 138
and Interpretations 1 & 12]**



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standard AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* is set out in paragraphs 1 – 18. All the paragraphs have equal authority.

PREFACE

Standards and Interpretations Amended by AASB 2007-6

This Standard makes amendments to the following Australian Accounting Standards and Interpretations:

1. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*;
2. AASB 101 *Presentation of Financial Statements*;
3. AASB 107 *Cash Flow Statements*;
4. AASB 111 *Construction Contracts*;
5. AASB 116 *Property, Plant and Equipment*;
6. AASB 138 *Intangible Assets*;
7. Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; and
8. Interpretation 12 *Service Concession Arrangements*.

These amendments arise from the issuance in June 2007 of a revised AASB 123 *Borrowing Costs*, which is the Australian equivalent to a revised IAS 23 *Borrowing Costs*.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided AASB 123 is also adopted for the same period. This Standard is applied when AASB 123 is applied.

Main Requirements

The revision of AASB 123 necessitates consequential amendments to the pronouncements listed above. The amendments principally remove references to expensing borrowing costs on qualifying assets, as AASB 123 was revised to require such borrowing costs to be capitalised.

ACCOUNTING STANDARD AASB 2007-6

The Australian Accounting Standards Board makes Accounting Standard AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* under section 334 of the *Corporations Act 2001*.

Dated 14 June 2007

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 2007-6

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 123

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*;
 - (b) AASB 101 *Presentation of Financial Statements*;
 - (c) AASB 107 *Cash Flow Statements*;
 - (d) AASB 111 *Construction Contracts*;
 - (e) AASB 116 *Property, Plant and Equipment*;
 - (f) AASB 138 *Intangible Assets*;
 - (g) Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; and
 - (h) Interpretation 12 *Service Concession Arrangements*;
- as a consequence of the issuance of a revised AASB 123 *Borrowing Costs* in June 2007.

Application

- 2 In respect of AASB 1, AASB 111, AASB 116, AASB 138 and Interpretations 1 and 12, 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 In respect of AASB 101 and AASB 107, this Standard applies to:
 - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
 - (b) general purpose financial reports of each reporting entity; and
 - (c) financial reports that are, or are held out to be, general purpose financial reports.
- 4 This Standard applies to annual reporting periods beginning on or after 1 January 2009.
- 5 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact. This Standard shall be applied when AASB 123 is applied.

Amendments to AASB 1

- 6 Paragraphs 9, 12 and 13 are amended to read as follows:
 - 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, 25H, 25I, 34A and 34B.

- 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 13-25I and 36A-36C grant exemptions from some requirements of other Australian equivalents to IFRSs; and
 - (b) paragraphs 26-34B prohibit retrospective application of some aspects of other Australian equivalents to IFRSs.
- 13 An entity may elect to use one or more of the following exemptions:

...

- (l) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph 25G);
- (m) a financial asset or an intangible asset accounted for in accordance with Interpretation 12 *Service Concession Arrangements*, identified in AASB 1048 *Interpretation and Application of Standards* as corresponding to IFRIC 12 (paragraph 25H); and
- (n) borrowing costs (paragraph 25I).

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

- 7 After paragraph 25H, a new heading and paragraph 25I are inserted as follows:

Borrowing costs

25I A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of AASB 123 *Borrowing Costs*. In those paragraphs references to the application date shall be interpreted as 1 January 2009 or the date of transition to Australian equivalents to IFRSs, whichever is later.

- 8 Notes concerning paragraphs 47A-47G are added as follows:

47A [Deleted by the AASB]

47B [Deleted by the AASB]

47C [Deleted by the AASB]

47D [Deleted by the AASB]

47E [Deleted by the AASB]

47F [Deleted by the AASB]

47G [Deleted by the AASB]

- 9 In the Implementation Guidance accompanying AASB 1, paragraphs IG23 and IG24 are amended to read as follows:

IG23 On first adopting Australian equivalents to IFRSs, an entity begins capitalising borrowing costs (AASB 123). In accordance with paragraph 25I of AASB 1, an entity:

- (a) capitalises borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 or the date of transition to Australian equivalents to IFRSs (whichever is later);
- (b) may elect to designate any date before 1 January 2009 or the date of transition to Australian equivalents to IFRSs (whichever is later) and to capitalise borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

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 AASB 123 requires disclosure of interest capitalised during the period. Neither AASB 123 nor AASB 1 require disclosure of the cumulative amount capitalised.

- 10 Paragraph IG25 is deleted and a note added as follows:

IG25 [Deleted by the IASB]

Amendment to AASB 101

- 11 The last sentence of paragraph 110 is deleted.

Amendment to AASB 107

12 Paragraph 32 is amended to read as follows:

- 32 The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the income statement or capitalised in accordance with AASB 123 *Borrowing Costs*.

Amendment to AASB 111

13 The last sentence of paragraph 18 is amended to read as follows:

- 18 ... Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs.

Amendment to AASB 116

14 Paragraph 23 is amended to read as follows:

- 23 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AASB 123.

Amendment to AASB 138

15 Paragraph 32 is amended to read as follows:

- 32 If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with AASB 123 *Borrowing Costs*.

Amendment to Interpretation 1

16 Paragraph 8 is amended to read as follows:

- 8 The periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. Capitalisation under AASB 123 *Borrowing Costs* is not permitted.

Amendments to Interpretation 12

17 Paragraph 22 is amended to read as follows:

22 In accordance with AASB 123 *Borrowing Costs*, borrowing costs attributable to the arrangement shall be recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service). In this case borrowing costs attributable to the arrangement shall be capitalised during the construction phase of the arrangement in accordance with that Standard.

18 In the Illustrative Examples accompanying Interpretation 12, paragraphs IE15 and IE31 are amended to read as follows:

IE15 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (licence to charge users of the infrastructure). The operator estimates the fair value of its consideration received to be equal to the forecast construction costs plus 5 per cent margin. It is also assumed that, in accordance with AASB 123 *Borrowing Costs*, the operator capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase of the arrangement:

...

IE31 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as a right to receive a licence to charge users of the infrastructure. The operator estimates the fair value of its consideration received or receivable as equal to the forecast construction costs plus 5 per cent. It is also assumed that, in accordance with AASB 123 *Borrowing Costs*, the operator capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase:

...