

Accounting Standard

AASB 2008-7
July 2008

**Amendments to Australian
Accounting Standards –
Cost of an Investment in a
Subsidiary, Jointly
Controlled Entity or
Associate**

**[AASB 1, AASB 118, AASB 121,
AASB 127 & AASB 136]**



Australian Government

**Australian Accounting
Standards Board**

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The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaasb.gov.au
Website: www.aasb.gov.au

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aaasb.gov.au

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ACCOUNTING STANDARD

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Australian Accounting Standard AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* is set out in paragraphs 1 – 24. All the paragraphs have equal authority.

PREFACE

Standards Amended by AASB 2008-7

This Standard makes amendments to the following Australian Accounting Standards:

- (a) *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*;
- (b) *AASB 118 Revenue*;
- (c) *AASB 121 The Effects of Changes in Foreign Exchange Rates*;
- (d) *AASB 127 Consolidated and Separate Financial Statements* (July 2004, as amended);
- (e) *AASB 127 Consolidated and Separate Financial Statements* (March 2008, as amended); and
- (f) *AASB 136 Impairment of Assets*.

These amendments arise from proposals included in Exposure Draft ED 160 “Exposure Draft of Proposed Amendments to *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and *AASB 127 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*”.¹

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.

An entity adopting this Standard early is required to adopt the whole Standard early.

¹ The amendments follow the issuance of corresponding amendments by the International Accounting Standards Board in May 2008.

Main Requirements

This Standard:

- (a) amends AASB 1 to allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. The deemed cost of such an investment can be either its:
 - (i) fair value (determined in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*) at the entity's date of transition to Australian-equivalents-to-IFRSs; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either deemed cost option to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost;
- (b) removes from AASB 118 the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. Therefore, all dividends from a subsidiary, jointly controlled entity or associate are recognised by the investor as income;
- (c) amends AASB 127 to require, in particular circumstances, a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of the share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The relevant circumstances include that the reorganisation involves:
 - (i) the new parent obtaining control of the original parent through an exchange of equity instruments;
 - (ii) no change to the group's assets and liabilities; and
 - (iii) no change to the owners' absolute and relative interests in the net assets; and
- (d) amends AASB 136 to include recognising a dividend from a subsidiary, jointly controlled entity or associate, together with other evidence, as an indication that the investment in the subsidiary, jointly controlled entity or associate may be impaired.

ACCOUNTING STANDARD AASB 2008-7

The Australian Accounting Standards Board makes Accounting Standard AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* under section 334 of the *Corporations Act 2001*.

Dated 25 July 2008

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 2008-7

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – COST OF AN INVESTMENT IN A SUBSIDIARY, JOINTLY CONTROLLED ENTITY OR ASSOCIATE

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 118 *Revenue*;
 - (c) AASB 121 *The Effects of Changes in Foreign Exchange Rates*;
 - (d) AASB 127 *Consolidated and Separate Financial Statements* (July 2004, as amended);
 - (e) AASB 127 *Consolidated and Separate Financial Statements* (March 2008, as amended); and
 - (f) AASB 136 *Impairment of Assets*;in relation to the cost of an investment in a subsidiary, jointly controlled entity or associate.

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 statements of each other reporting entity; and**
 - (c) financial statements that are, or are held out to be, general purpose financial statements.**
- 3 This Standard applies to annual reporting periods beginning on or after 1 January 2009.**
- 4 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.**

Amendments to AASB 1

- 5 Paragraph 13(ea) is added:**
- 13 An entity may elect to use one or more of the following exemptions:**
- (a) ...**
 - (ea) investments in subsidiaries, jointly controlled entities and associates (paragraphs 23A and 23B);**
 - (f) ...**
- 6 The heading “Investments in subsidiaries, jointly controlled entities and associates” is added after paragraph 23.**

- 7 Paragraphs 23A and 23B are added:
- 23A When an entity prepares separate financial statements, *AASB 127 Consolidated and Separate Financial Statements* requires it to account for its investments in subsidiaries, jointly controlled entities and associates either:
- (a) at cost; or
 - (b) in accordance with *AASB 139 Financial Instruments: Recognition and Measurement*.
- 23B If a first-time adopter measures such an investment at cost in accordance with paragraph 23A(a), it shall measure that investment at one of the following amounts in its separate opening Australian-equivalents-to-IFRSs statement of financial position:
- (a) cost determined in accordance with *AASB 127*; or
 - (b) deemed cost. The deemed cost of such an investment shall be its:
 - (i) fair value (determined in accordance with *AASB 139*) at the entity's date of transition to IFRSs in its separate financial statements; or
 - (ii) previous GAAP carrying amount at that date.
- A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.
- 8 Paragraphs 25A and 34C are amended to read as follows:
- 25A *AASB 139* permits ...
- 34C A first-time adopter shall apply the following requirements of *AASB 127* (as amended in March 2008) ...
- 9 A heading is added after paragraph 44 as follows:
- Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates

10 Paragraph 44A is added:

44A Similarly, if an entity uses a deemed cost in its opening Australian-equivalents-to-IFRSs statement of financial position for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements (see paragraph 23B), the entity's first Australian-equivalents-to-IFRSs separate financial statements shall disclose:

- (a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;
- (b) the aggregate deemed cost of those investments for which deemed cost is fair value; and
- (c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

11 Paragraph 47K is added:

47K AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, issued in July 2008, added paragraphs 13(ea), 23A, 23B and 44A. An entity shall apply those paragraphs for annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the paragraphs for an earlier period, it shall disclose that fact.

Amendments to AASB 118

12 Paragraph 32 is amended to read as follows:

32 When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue.

13 The heading "Effective Date of IAS 18" above paragraph 37 is changed to "Effective Date".

14 Paragraph 38 is added:

38 *AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, issued in July 2008, amended paragraph 32. An entity shall apply that amendment prospectively for annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the related amendments in paragraphs 4 and 37A of AASB 127 (July 2004, as amended) or paragraphs 4 and 38A of AASB 127 (March 2008, as amended) for an earlier period, it shall apply the amendment in paragraph 32 at the same time.

Amendment to AASB 121

15 Paragraph 49 is amended to read as follows:

49 An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in other comprehensive income is reclassified to profit or loss at the time of a write-down.

Amendments to AASB 127 (July 2004, as amended)

16 The definition of the cost method is deleted from paragraph 4.

17 Paragraphs 37A, 37B and 37C are added:

37A An entity shall recognise a dividend from a subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

37B When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

- (a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;

- (b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
- (c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation

and the new parent accounts for its investment in the original parent in accordance with paragraph 37(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

37C Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 37B. The requirements in paragraph 37B apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

Effective date and transition

- 18 An entity shall apply the deletion of the definition of the cost method from paragraph 4 of AASB 127 and the addition of paragraph 37A prospectively for annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the changes for an earlier period, it shall disclose that fact and apply the related amendments to AASB 118, AASB 121 and AASB 136 at the same time.
- 19 An entity shall apply the addition of paragraphs 37B and 37C prospectively to reorganisations occurring in annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. In addition, an entity may elect to apply paragraphs 37B and 37C retrospectively to past reorganisations within the scope of those paragraphs. However, if an entity restates any reorganisation to comply with paragraph 37B or 37C, it shall restate all later reorganisations within the scope of those paragraphs. If an entity applies paragraph 37B or 37C for an earlier period, it shall disclose that fact.

Amendments to AASB 127 (March 2008, as amended)

20 The definition of the cost method is deleted from paragraph 4.

21 Paragraphs 38A, 38B and 38C are added:

38A An entity shall recognise a dividend from a subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

38B When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

- (a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
- (b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
- (c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation

and the new parent accounts for its investment in the original parent in accordance with paragraph 38(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

38C Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 38B. The requirements in paragraph 38B apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

Effective date and transition

22 Paragraphs 45B and 45C are added:

45B *AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, issued in July 2008, deleted the definition of the cost method from paragraph 4 and added paragraph 38A. An entity shall apply those amendments prospectively for annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the changes for an earlier period, it shall disclose that fact and apply the related amendments to AASB 118, AASB 121 and AASB 136 at the same time.

45C *AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, issued in July 2008, added paragraphs 38B and 38C. An entity shall apply those paragraphs prospectively to reorganisations occurring in annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. In addition, an entity may elect to apply paragraphs 38B and 38C retrospectively to past reorganisations within the scope of those paragraphs. However, if an entity restates any reorganisation to comply with paragraph 38B or 38C, it shall restate all later reorganisations within the scope of those paragraphs. If an entity applies paragraph 38B or 38C for an earlier period, it shall disclose that fact.

Amendments to AASB 136

23 In paragraph 12, a heading and subparagraph (h) are added after paragraph 12(g):

12 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indicators:

...

Dividend from a subsidiary, jointly controlled entity or associate

(h) for an investment in a subsidiary, jointly controlled entity or associate, the investor recognises a dividend from the investment and evidence is available that:

- (i) **the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or**
- (ii) **the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared.**

24 Paragraph 140D is added:

140D AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, issued in July 2008, added paragraph 12(h). An entity shall apply that amendment prospectively for annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the related amendments in paragraphs 4 and 37A of AASB 127 (July 2004, as amended) or paragraphs 4 and 38A of AASB 127 (March 2008, as amended) for an earlier period, it shall apply the amendment in paragraph 12(h) at the same time.