Accounting Standard

AASB 1029
October 2000

Interim Financial Reporting

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CONTENTS

Defined words are *italicised* each time they appear. The definitions are in Section 9. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The Standard is presented in a format that combines the formats previously used in Accounting Standards (AASB Standards) and Australian Accounting Standards (AAS Standards) in order to move towards the issue of a single series of standards. The Standard:

(a) applies to general purpose interim financial reports, including half-year financial reports of each disclosing entity required to be prepared in accordance with Part 2M.3 of the Corporations Law;

(b) prescribes the minimum content of an interim financial report as comprising a condensed statement of financial position, a condensed statement of financial performance, a condensed statement of cash flows and specific disclosures;

(c) states that, the interim financial report is intended to provide an update on the most recent annual financial report by focusing on the effects of transactions, events and circumstances since that report;

(d) requires interim financial reports to be prepared using the same accounting policies as applied in the most recent annual financial report, or, in the case of a change in accounting policy or, where the interim financial report is prepared during the first annual reporting period of the entity, the accounting policies to be applied in the next annual financial report. This ensures that the criteria for recognising and bases for measuring assets, liabilities, equity, revenues and expenses in interim financial statements are the same as for annual financial statements and treats each interim period as a discrete reporting period;

(e) requires interim financial reports to include comparative interim financial information; and

(f) requires disclosure in the annual financial report of information in respect of accounting policy changes and revisions of estimates made in the final current interim period of the annual reporting period for which a separate interim financial report is not published.

ACCOUNTING STANDARD AASB 1029

The Australian Accounting Standards Board makes Accounting Standard AASB 1029 "Interim Financial Reporting" under section 334 of the Corporations Law.

	F. K. Alfredson
Dated 4 October 2000	Chair – AASB

ACCOUNTING STANDARD

AASB 1029 "INTERIM FINANCIAL REPORTING"

1 Application

1.1 This Standard applies to:

(a) each *disclosing entity* required to prepare *half-year* financial reports in accordance with Part 2M.3 of the Corporations Law;

(b) *interim financial reports* that are *general purpose financial reports* of each other *reporting entity*; and

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

1.1.1 Under the Corporations Law, *disclosing entities* are required to prepare *half-year* financial reports. *Disclosing entities* may also voluntarily prepare other general purpose *interim financial reports*. This Standard prescribes the form and content of general purpose *interim financial reports*, including *half-year* financial reports prepared by *disclosing entities.*

1.1.2 This Standard does not mandate the preparation or frequency of *interim financial reports*, or how soon after the end of an *interim period* they should be completed. However, governments, securities regulators, stock exchanges and other regulators may require *entities* to prepare *interim financial reports* that are *general purpose financial reports.* This Standard applies if an *entity* is required or elects to prepare an *interim financial report* that is a *general purpose* *financial report* or is held out to be a *general purpose financial report*.

1.1.3 *Interim financial reports* that are intended to be special purpose financial reports do not fall within the scope of this Standard. However, *interim financial reports* that are purported to be special purpose financial reports but have the characteristics of *general purpose financial reports* fall within the scope of this Standard. *Interim financial reports* that are widely available but lack the characteristics of *general purpose financial reports*, are not regarded as *general purpose financial reports*. An example is selected interim summary financial information, such as turnover and profit, voluntarily released by some *entities*. Another example would be monthly or quarterly reports for the general government sector. In some cases, professional judgement is needed to determine whether a particular interim report is a *general purpose financial report*.

1.2 Where the *entity* is an *economic entity*, the *interim financial report* must be prepared on a consolidated basis.

1.2.1 If the *entity's* most recent annual financial report included its own separate financial report in addition to the consolidated financial report, this Standard neither requires nor prohibits the inclusion of the *entity's* own separate financial report in the *interim financial report*. However, where the *entity* elects to include its own separate financial report in the *interim financial report*, its own separate financial report is also subject to the requirements of this Standard.

1.2.2 Each annual or *interim financial report* is evaluated on its own for conformity with Accounting Standards (AASB Standards) or Australian Accounting Standards (AAS Standards). The fact that an *entity* has not provided *interim financial reports* during a particular *annual reporting period* or has provided *interim financial reports* that do not comply with this Standard does not, of itself, mean that its annual financial report does not conform with AASB Standards or AAS Standards.

2 Operative Date

2.1 This Standard applies to *interim reporting periods* beginning on or after 1 July 2001.

2.2 This Standard may be applied to *interim reporting periods* beginning before 1 July 2001. An *entity* that is required to prepare *half-year* financial reports in accordance with Part 2M.3 of the Corporations Law may apply this Standard to *interim reporting periods* beginning before 1 July 2001, where an election has been made in accordance with subsection 334(5) of the Corporations Law.

2.3 When applied and operative, this Standard supersedes Accounting Standard AASB 1029 "Half-Year Accounts and Consolidated Accounts" as approved by notice published in the *Commonwealth of Australia Gazette* No. S436 on 13 December 1994.

2.3.1 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 5 October 2000.

3 Purpose of Standard

3.1 The purpose of this Standard is to prescribe:

(a) the minimum content of an *interim financial report*; and

(b) the criteria for *recognising* and bases for measuring *assets, liabilities, equity, revenues* and *expenses* in *interim financial reports.*

3.1.1 Timely and *reliable interim financial reporting* improves the ability of users to understand an *entity's* capacity to generate profits or operating surpluses and cash flows and its financial condition and liquidity.

3.1.2 The *interim financial report* is intended to provide an update on the annual financial report prepared for the most recent *annual reporting period.* Accordingly, it focuses on the effects of transactions, events and circumstances since that report and, except for comparatives, need not duplicate information previously reported.

4 Materiality

4.1 In *recognising*, measuring, classifying or disclosing an item for *interim financial reporting* purposes, *materiality* must be assessed in relation to the *interim period* financial information.

4.1.1 In deciding whether an item is material, its nature and amount usually need to be evaluated together. Accounting Standard AASB 1031 and Australian Accounting Standard AAS 5 "Materiality" provide guidance on the role of *materiality* in making judgements in the preparation and presentation of financial reports.

4.1.2 The *recognition*, measurement, classification and disclosure decisions for *interim financial reporting* purposes are based on *interim period* information. The *materiality* of an item is assessed in relation to the current *interim period* information or annual reporting-period-to-date information as appropriate. Thus, for example, the *materiality* of *extraordinary items* or specific *revenues* and *expenses* requiring separate disclosure, and changes in *accounting policies* or estimates is assessed with respect to related *interim period* information. This ensures that an *interim financial report* includes information that is relevant to understanding an *entity's* financial position as at the end of the *interim period* and its financial performance during the *interim period.*

5 Content of an Interim Financial Report

5.1 An *interim financial report* must include, as a minimum:

(a) a condensed *statement of financial performance*;

(b) a condensed *statement of financial position*;

(c) a condensed statement of cash flows; and

(d) other disclosures required by paragraphs 7.1 to 7.5 of this Standard

in lieu of the requirements in Accounting Standards (AASB Standards) or Australian Accounting Standards (AAS Standards) that would otherwise apply.

5.1.1 In the interest of timeliness and cost considerations and to reduce repetition of information reported in the most recent annual financial report, an *entity* may elect to provide less information for an *interim* *period* compared with an *annual reporting period.* Paragraph 5.1 identifies the minimum content of an *interim financial report* as comprising condensed *financial statements* (refer to paragraph 5.2) and specific disclosures. It is important to distinguish condensed *financial statements* prepared under this Standard from other forms of presenting and disclosing information under AASB Standards or AAS Standards. An annual financial report has comprehensive financial information including annual *financial statements* and notes in the financial report, in accordance with AASB Standards or AAS Standards. A *concise financial report* for an *annual reporting period* prepared under Accounting Standard AASB 1039 "Concise Financial Reports", has less than comprehensive financial information, but includes annual *financial statements* and is required to note that members can request a copy of the annual financial report.

5.1.2 AASB Standards and AAS Standards apply to *general purpose financial reports* and financial reports that are held out to be *general purpose financial reports*. Section 6 of this Standard requires the *recognition* and measurement requirements in other AASB Standards or AAS Standards to be applied in *interim financial reports*. Paragraph 5.1 of this Standard allows the *interim financial report* to comprise condensed *financial statements* and specific disclosures rather than the *financial statements* and disclosures that would otherwise be required if the *entity* were to apply AASB Standards or AAS Standards. For example, in the absence of paragraph 5.1, Australian Accounting Standards AAS 25 "Financial Reporting by Superannuation Plans", AAS 27 "Financial Reporting by Local Governments", AAS 29 "Financial Reporting by Government Departments" and AAS 31 "Financial Reporting by Governments" would entail the preparation and presentation of *interim financial reports* under the more onerous requirements of these Standards. This is because these standards apply to *reporting periods* which could be *annual reporting periods* or *interim reporting periods.*

5.1.3 Typically, the management or governing body of an *entity* nominates an annual *reporting date* for the *entity.* This date defines the beginning and end of the *annual reporting period.* Financial reports are prepared for the first *annual reporting period* (which may be more or less than 12 months) of the *entity* and each subsequent *annual reporting period* in accordance with other AASB Standards or AAS Standards. Where the annual *reporting date* is changed, financial reports are prepared for the first new *annual reporting period* (which may be more or less than 12 months) and each subsequent *annual reporting period* in accordance with other AASB Standards or AAS Standards. Financial reports prepared for a period that is shorter than the *annual reporting period*, regardless of the length of the *annual reporting period,* are *interim financial reports* and subject to this Standard.

Financial Statements Included in Interim Financial Reports

5.2 **If the *entity* includes condensed *financial statements* in its *interim financial report*:**

(a) **the condensed *statement of financial position* and the condensed statement of cash flows must include, as a minimum, each of the headings and subtotals that were reflected in the *statement of financial position* and the statement of cash flows included in the *entity's* most recent annual financial report, or, where the *interim financial report* is prepared during the first *annual reporting period* of the *entity*, to be reflected in the *statement of financial position* and the statement of cash flows to be included in the next annual financial report;**

(b) **the condensed *statement of financial performance* must include, where applicable and as a minimum, the following items:**

(i) **profit or loss/result from *ordinary activities* before income tax expense (income tax revenue);**

(ii) **profit or loss/result from *ordinary activities* after related income tax expense (income tax revenue);**

(iii) **profit or loss from *extraordinary items* after related income tax expense (income tax revenue);**

(iv) ***net profit or loss/result*;**

(v) ***net profit or loss/result* attributable to members of the *parent entity*;**

(vi) **total *revenues*, *expenses* and valuation adjustments attributable to members of the *parent entity* and *recognised* directly in *equity*; and**

(vii) total changes in *equity* other than those resulting from transactions with owners as owners; and

(c) a line item must be included on the face of a *financial statement* if its significance in the overall context of the *entity* has changed since the most recent annual financial report and its omission would make the interim *financial statement* included in the *interim financial report* misleading.

5.2.1 The *recognition* and measurement guidance in this Standard applies to all interim *financial statements* regardless of the extent to which those *financial statements* are condensed.

5.2.2 Accounting Standards and Australian Accounting Standards AASB 1018 and AAS 1 "Statement of Financial Performance", AASB 1026 and AAS 28 "Statement of Cash Flows", AASB 1040 and AAS 36 "Statement of Financial Position", and AASB 1034 and AAS 37 "Financial Report Presentation and Disclosures" provide guidance on the structure of the *financial statements* and include appendices that provide further guidance on line items, headings and subtotals included on the face of the *financial statements*.

5.2.3 *Materiality* in the context of *interim financial reporting* (see paragraph 4.1.2) is the criterion for the inclusion on the face of an interim *financial statement* of a separate line item on the basis of its changed significance in the overall context of the *entity* since the most recent annual financial report. Accordingly, a line item would warrant separate disclosure if its omission would mislead the users of the *interim financial report* in making economic decisions.

5.2.4 This Standard does not prohibit or discourage the *entity* from including more than the minimum line items, headings and subtotals in its condensed *financial statements* or more than the specific disclosures required in this Standard in its *interim financial report*.

5.3 Where the *entity's interim financial report* includes a full set of *financial statements* and notes of the type normally included in an annual financial report, the form and content of those *financial statements* and notes must conform to the requirements of this Standard and:

(a) other AASB Standards, as if any reference in those Standards to "*financial year*" or "*annual reporting period*" includes a reference to "*interim reporting*

***period*" and despite the applicability of Standards currently in force; or**

(b) AAS Standards, but only if they are applicable.

5.3.1 As noted in paragraphs 5.1.1 and 5.2.4, this Standard prescribes the minimum content of an *interim financial report* but the *entity* may include more than the minimum line items, headings and subtotals in condensed *financial statements* or specific disclosures required by this Standard in the *interim financial report.* However, if the *entity* chooses to include in its *interim financial report* a full set of *financial statements* and notes of the type normally included in an annual financial report, it includes all of the disclosures required by this Standard (see paragraphs 7.1 to 7.5) as well as those required by other AASB Standards or AAS Standards.

Earnings per Share

5.4 Basic and diluted earnings per share for the *half-year* must be presented on the face of the *statement of financial performance* included in the *half-year* financial report calculated in accordance with Accounting Standard AASB 1027 "Earnings per Share".

5.4.1 AASB 1027 applies to listed *reporting entities* and *reporting entities* that have shares on issue and are in the process of listing.

6 Recognition and Measurement

Same Accounting Policies as Applied in Annual Financial Reports

6.1 The *entity* must apply:

(a) the same *accounting policies* in its *interim financial report* as were applied in its most recent annual financial report; or

(b) the *accounting policies* to be applied for the next annual financial report, where *accounting policy* changes are made after the most recent annual *reporting date* or the *interim financial report* is prepared during the first *annual reporting period* of the *entity.*

6.1.1 Requiring that the *entity* apply the same *accounting policies* in its *interim financial report* as in its most recent annual financial report or in its next annual financial report means that *interim period* measurements are made as if each *interim period* is an independent reporting period and is consistent with treating each *interim period* as a discrete reporting period. Treating the *interim period* as a discrete reporting period ensures that the results for an *interim period* reflect the economic activity of that period. The *interim financial report* may include explanations in relation to the consequences of treating the *interim period* as a discrete period where it is likely that such explanations would enhance users' understanding of the *interim financial report*.

6.1.2 The criteria for *recognising* and bases for measuring *assets*, *liabilities*, *equity*, *revenues* and *expenses* in interim *financial statements* are the same as for annual *financial statements*. In relation to the *statement of financial performance*, it is necessary to apply the criteria and bases for *recognising* and measuring *revenues* and *expenses* that are set out in relevant AASB Standards or AAS Standards, for example Accounting Standard AASB 1021 and Australian Accounting Standard AAS 4 "Depreciation". Similarly, in relation to the *statement of financial position*, it is necessary to apply the criteria and bases for *recognising* and measuring *assets*, *liabilities* and *equity* that are set out in relevant AASB Standards or AAS Standards, for example Accounting Standard AASB 1015 and Australian Accounting Standard AAS 21 "Acquisitions of Assets". Further examples are:

(a) the criteria for *recognising* and bases for measuring *expenses* resulting from inventory write-downs and restructurings, or impairment losses in an *interim period* are the same as those that an *entity* would follow if it prepared only annual financial reports;

(b) a cost that does not meet the definition of an *asset* at the end of an *interim period* is not *recognised* as an *asset* in the *statement of financial position* on the basis that it may meet that definition by the end of the *annual reporting period*;

(c) a cost that does not meet the definition of an *asset* at the end of an *interim period* is not *recognised* as an *asset* in the *statement of financial position* in order to smooth earnings over the *interim periods* within an *annual reporting period*;

(d) income tax expense is *recognised* in each *interim period* using the estimated annual effective income tax rate expected for the full *annual reporting period*; and

(e) a *liability* at an interim *reporting date* must represent an existing obligation at that date, just as it must at an annual *reporting date.*

Annually Determined Items

6.1.3 The requirements of paragraph 6.1 are consistent with treating each *interim period* as a discrete period. This entails the application of the same *recognition* criteria and measurement bases in both annual and *interim financial reports*. For example, the treatment of annual profit related bonuses as at an interim *reporting date* would be the same as the treatment of bonuses determined over, say, 3 years as at the end of years 1 and 2. For certain items, it is necessary to accrue *revenues* or *expenses* using an estimated annual effective rate. This reflects the fact that, regardless of the length of the reporting period, there are likely to be some items of *revenue* or *expense* that need to be determined as at the *reporting date* despite the fact that the underlying transaction or other event is incomplete. For instance, in calculating interim income tax expense it is necessary to estimate the effective rate at which an item that has a tax effect will accrue during the *annual reporting period* in order to determine the amounts to be *recognised* in *interim financial reports.* Consistent with paragraph 6.4 of this Standard, the estimated annual effective rate is re-estimated at each interim *reporting date* on an annual reporting period-to-date basis. Paragraph 7.5(b) requires disclosure of the revision of an estimate if the revision has a *material* effect in the current *interim period*. Appendix 2 provides additional guidance and discusses some examples of annually determined items including income tax.

6.1.4 As noted in paragraphs 6.1.2(d) and 6.1.3, income tax expense is *recognised* in each *interim period* using an estimated annual effective income tax rate. The annual effective income tax rate is the effective rate of tax expected to be applicable to the *annual reporting period's net profit or loss/result*. It reflects the effect of items such as a progressive tax rate structure, changes in income tax rates[1] expected to occur part way through the *annual reporting period*, anticipated tax credits that are contingent on achieving a certain level of annual capital expenditure or exports and certain annual non-deductible items. Generally, items that are not directly attributable to a specific *interim period* are included in the calculation of the annual effective income tax rate. For example, a tax credit that is contingent on a certain level of annual capital expenditure, and achievement of that level of expenditure is

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[1] Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3 "Income Taxes" provide guidance on accounting for changes in tax rates.

probable, is included in the calculation of the annual effective income tax rate. However, a tax credit directly related to a particular *asset* is included in the tax calculations of the *interim period* in which the expenditure on that *asset* is incurred. Similarly, to the extent practicable, special tax rates applicable to particular categories of *revenue* are not included in the calculation of the annual effective income tax rate, rather they affect the tax calculation for the period in which the *revenue* is *recognised.*

6.1.5 The estimated annual effective income tax rate is calculated as the ratio of income tax expense or revenue (calculated at the statutory rate) relating to adjusted estimated *net profit or loss/result* for the *annual reporting period* (adjusted for items of an annual nature such as certain tax credits and certain non-deductible items) to the estimated *net profit or loss/result* for the *annual reporting period*. The annual effective income tax rate is then applied to the year-to-date *net profit or loss/result* at the end of each *interim period* to calculate the annual reporting period-to-date income tax expense (revenue). The *interim period* income tax expense (revenue) is calculated as the difference between the amount so calculated and the amount reported for the previous interim period-to-date of the *annual reporting period.* The estimated annual effective income tax rate may be approximated in particular circumstances by the statutory rate, for example when the effect of the required adjustments is immaterial, or when the annual *net profit or loss/result* is expected to be zero. Appendix 2 provides additional guidance and contains examples of interim income tax calculations in different circumstances using an annual effective income tax rate.

Revenues Received Seasonally, Irregularly or Occasionally

6.1.6 *Revenues* that are received seasonally, irregularly or occasionally within an *annual reporting period* are not *recognised* as *liabilities* at an interim *reporting date* if the same treatment would not be appropriate in similar circumstances at the *entity's* annual *reporting date.*

6.1.7 Examples of *revenues* that may be received seasonally, irregularly or occasionally include dividend revenue, royalties and government grants. Additionally, some *entities* consistently earn more *revenues* in certain *interim periods* of an *annual reporting period* than in other *interim periods,* for example seasonal *revenues* of retailers. Such *revenues* are *recognised* when they occur.

Costs Incurred Unevenly During the Annual Reporting Period

6.1.8 Costs incurred unevenly during the *entity's annual reporting period* are *recognised* in *interim financial reports* in accordance with the same *accounting policies* as applied in the *entity's* annual financial reports. Accordingly, such costs are not *recognised* as an *asset* at an interim *reporting date* if the same treatment would not be appropriate in similar circumstances at the annual *reporting date*.

Changes in Accounting Policies

6.2 Unless the transitional provisions in an AASB Standard or an AAS Standard or an Urgent Issues Group Consensus View that is applied for the first time require otherwise, a change in *accounting policy* must be reflected by restating the *financial statements* of prior *interim periods* of the current *annual reporting period*. Comparable *interim periods* of prior *annual reporting periods* must not be restated.

6.2.1 Where the *entity* prepares an *interim financial report* for the first half-year of an *annual reporting period* and then an annual financial report, there is no prior *interim period* of the current *annual reporting period* at the end of the first half-year nor at the end of the *annual reporting period*. However, where the *entity* reports more frequently than half-yearly, *financial statements* of prior *interim periods* of the current *annual reporting period* would be restated to reflect changes in *accounting policies*. For example, if an *entity* reports quarterly and changes an *accounting policy* in the third quarter, the *financial statements* for the first half-year and for the first and second quarters are restated to reflect the new *accounting policy*.

6.2.2 Paragraph 6.2 ensures that a single *accounting policy* is applied to a particular class of transactions throughout an entire *annual reporting period*. Under Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 "Accounting Policies", when an *entity* changes an *accounting policy* other than in order to comply with an AASB Standard or an AAS Standard, or an Urgent Issues Group Consensus View, the cumulative financial effect of the change in *accounting policy* up to the end of the preceding *annual reporting period* is *recognised* as *revenue* or *expense* in the *statement of financial performance* in the *annual reporting period* in which the change is made, unless it is not practicable to determine the cumulative financial effect, in which case the new *accounting policy* must be applied from the beginning of the current *annual reporting* *period*. The effect of the requirement in paragraph 6.2 is to ensure that, within the *current annual reporting period*, any change in *accounting policy* is applied as from the beginning of the *annual reporting period*.

6.2.3 If *accounting policy* changes are reflected in some but not all of the *interim periods* within the *annual reporting period*, two differing *accounting policies* would be applied to a particular class of transactions within a single *annual reporting period*. The result would be interim allocation difficulties, obscured operating results, and impediments to the analysis and understanding of *interim period* information.

Use of Estimates

6.3 The measurement procedures followed in an *interim financial report* must result in information that is *relevant* and *reliable*.

6.3.1 Whilst measurements in both annual and *interim financial reports* are based on estimates, the preparation of *interim financial reports* generally requires a greater use of estimation methods than annual financial reports.

Revisions of Estimates

6.4 When preparing the *interim financial report* for an *interim period* that is an annual reporting period-to-date, revisions of estimates must be reflected in the measurements of *revenues* and *expenses* on an annual reporting period-to-date basis.

6.4.1 The requirement in paragraph 6.4 means that the frequency of the *entity's* reporting (annual, half-yearly, quarterly or monthly) does not affect the measurement of its annual *revenues* and *expenses* despite the fact that annual reporting period-to-date measurements may involve revisions of estimates of amounts reported in prior *interim periods* of the current *annual reporting period*. For example, if *expenses* resulting from inventory write-downs and restructurings, or impairment losses are measured in one *interim period* and the estimate is reduced in a subsequent *interim period* of that *annual reporting period*, the original estimate is revised in the subsequent *interim period* by reversal of the previously *recognised* amount. The subsequent *interim financial report* for the annual reporting period-to-date *recognises* the net amount as an *expense* for that period, rather than an *expense* reflecting the original estimate and a *revenue* reflecting the reversed conditions. The *interim financial report* for the current *interim period recognises* the *revenue* resulting from the reversed conditions. Similarly, amounts accrued for income tax expense in one *interim period* may have to be adjusted in a subsequent *interim period* of that *annual reporting period* if the estimate of the annual effective income tax rate is revised.

6.4.2 In measuring the *assets*, *liabilities*, *equity*, *revenues*, *expenses* and cash flows reported in its *financial statements*, an *entity* that reports only annually is able to take into account information that becomes available throughout the *annual reporting period*. Its measurements are, in effect, on an annual reporting period-to-date basis. An *entity* that reports half-yearly uses information available by mid-year or shortly thereafter in making the measurements in its *financial statements* for the first half-year and information available by year-end or shortly thereafter for the twelve-month period. The twelve-month measurements will reflect possible revisions of estimates of amounts reported for the first half-year. An *entity* that reports more frequently than half-yearly measures *revenues* and *expenses* on an annual reporting period-to-date basis for each *interim period* using information available when each set of *financial statements* is being prepared. Amounts of *revenues* and *expenses* reported in the current *interim period* will reflect any revisions of estimates of amounts reported in prior *interim periods* of the *annual reporting period*. Whether an *entity* reports half-yearly, or more frequently, estimated amounts reported in prior *interim periods* are not retrospectively adjusted. However, paragraphs 7.5(b) and 7.8 require the nature and amount of any significant revisions of estimates to be disclosed.

Errors

6.4.3 In accordance with Accounting Standard AASB 1018 and Australian Accounting Standard AAS 1 "Statement of Financial Performance", and Accounting Standard AASB 1040 and Australian Accounting Standard AAS 36 "Statement of Financial Position", errors are corrected in the *interim period* in which they are discovered. In the case of *fundamental errors* any comparative information which contains such an error is revised as required by those Standards.

Applying the Recognition Criteria and Measurement Bases

6.4.4 Appendix 2 provides examples of applying the general *recognition* criteria and measurement bases set out in paragraphs 6.1 to 6.4.3.

7 Disclosures

7.1 The *interim financial report* must prominently display an explicit statement that the *interim financial report* is to be read in conjunction with the most recent annual financial report.

7.1.1 It is important that the reader of an *interim financial report* is aware that the report is to be read in the context of the most recent annual financial report, because the *interim financial report* focuses on the effects of transactions, events and circumstances that have occurred since that report.

7.2 Where the *entity* includes condensed *financial statements* in its *interim financial report,* those condensed statements must be clearly labelled as such.

7.3 Where the *interim financial report* does not include notes of the type normally included in an annual financial report, that fact must be disclosed in the notes in the *interim financial report*.

7.3.1 Where the *entity* includes *financial statements* and notes in its *interim financial report* that are not of the type normally included in an annual financial report, paragraphs 7.2 and 7.3 require the disclosure of that fact. This is to avoid any misunderstanding on the part of users that the *interim financial report* contains all the information that is usually included in a financial report in accordance with AASB Standards or AAS Standards.

7.4 Except for items (c) and (d), which need only be disclosed if there is a change from the most recent annual financial report, the following information must be included, in summarised form, in the notes in the *interim financial report,* if not disclosed elsewhere in the *interim financial report*:

- **(a) the interim *reporting date* of, or the *interim reporting period* covered by, each interim *financial statement,* whichever is appropriate;**
- **(b) a statement that the *interim financial report* is a *general purpose financial report*;**
- **(c) a statement as to whether the financial report has been prepared in accordance with:**
  - **(i) AASB Standards or AAS Standards;**

(ii) other authoritative pronouncements of the Australian Accounting Standards Board and/or the former Public Sector Accounting Standards Board; and

(iii) Urgent Issues Group Consensus Views;

(d) a description of the measurement basis or bases used in preparing the *interim financial report*;

(e) a statement that the same *accounting policies* are followed in the *interim financial report* as those applied in the most recent annual financial report or, if those policies have been changed, a description of the nature and effect of the change;

(f) if different estimation methods are used in the *interim financial report* as compared with the most recent annual financial report, a description of the nature of those methods;

(g) where the interim operations are seasonal or irregular, explanatory comments about the seasonality or irregularity of those operations; and

(h) *material* events subsequent to the end of the *interim period* that have not been *recognised* in the interim *financial statements* and an indication, where possible, of the financial effect of each event.

7.4.1 When the financial information for *interim periods* is affected by seasonal or irregular factors, explanatory comments about those factors are useful to users of financial reports. Seasonality of operations refers to the substantial variation between levels of *revenues* or profits in certain *interim periods* and other *interim periods* that tend to recur each *annual reporting period.* Irregularity in the context of interim operations refers to the predictable or unpredictable volatility or variability from *interim period* to *interim period* of *revenues* or profits. Narrative commentary on the nature of seasonal or irregular activity and information on the *entity's revenues* or profits trend or liquidity showing related turning points help the assessment of the impact of seasonal or irregular factors on interim results.

7.5 The following information must be included, in summarised form, in the notes in the *interim financial report* on an annual reporting period-to-date basis and, where appropriate, on a

current *interim period* basis, if not disclosed elsewhere in the *interim financial report*:

(a) **the nature and amount of items affecting *assets, liabilities, equity, net profit or loss/result,* or cash flows which are *material* to an understanding of the *interim period,* including:**

(i) **when the item is a *revenue* or an *expense* from *ordinary activities* and is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the *entity* for the *interim period*; or**

(ii) **when the item is classified as an *extraordinary item,* in which case separate disclosure of the nature of the *extraordinary item,* its amount before related income tax expense (income tax revenue), and the related amount of income tax expense (income tax revenue) is required;**

(b) **the nature and amount of revisions in estimates of amounts reported in prior *interim periods* of the current *annual reporting period* or revisions in estimates of amounts reported in prior *annual reporting periods,* if those revisions have a *material* effect in the current *interim period*;**

(c) **issuances, repurchases, and repayments of debt securities and *equity* securities in accordance with Accounting Standard AASB 1026 and Australian Accounting Standard AAS 28 "Statement of Cash Flows";**

(d) **for each class of shares included in *equity,* the amount in aggregate or per share of dividends that were either *recognised* as a *liability* in the *interim period* or paid during the *interim period* without previously being *recognised* as a *liability*;**

(e) ***segment revenues* and *segment result* for *business segments* or *geographical segments,* whichever is the *entity's* primary format of segment reporting, if Accounting Standard AASB 1005 "Segment Reporting" requires the *entity* to disclose segment information in its annual financial report;**

(f) **changes in the composition of the *entity* during the annual reporting period-to-date, including acquisition or disposal of *subsidiaries* and restructurings;**

(g) **a description of any significant activities or events relating to a *discontinuing operation* for which the *initial disclosure event* has occurred, including any significant changes since the last annual *reporting date* in the amount or timing of cash flows relating to the *assets* to be disposed of and *liabilities* to be settled; and**

(h) **changes in contingent *liabilities* or contingent *assets* since the last annual *reporting date* or a statement that there have been no changes since the last annual *reporting date.***

7.5.1 The disclosures required by paragraphs 7.1 to 7.5 provide a context within which the *interim financial report* can be read by users. A user of the *entity's interim financial report* is presumed to have access to the *entity's* most recent annual financial report. Therefore, it is unnecessary for the notes in an *interim financial report* to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual financial report. At an interim *reporting date*, explanations of events and transactions that are significant to an understanding of the changes in financial position and performance of the *entity* since the last annual *reporting date* are more useful.

7.5.2 An item is disclosed in the *interim financial report* in accordance with paragraph 7.5(a) where that item is either non-recurring or, if recurring, has changed in significance since the most recent annual financial report. Examples of items that are required by paragraph 7.5(a) to be separately disclosed are set out below. Individual AASB Standards or AAS Standards provide guidance regarding disclosures for many of these items:

(a) a write-down of inventories to net realisable value and the reversal of such a write-down;

(b) *recognition* of a loss from the impairment of property, plant and equipment, intangible assets, or other *assets*, and the reversal of such an impairment loss;

(c) the reversal of any provisions for the costs of restructuring;

(d) acquisitions and disposals of items of property, plant and equipment;

(e) commitments for the purchase of property, plant, and equipment;

(f) litigation settlements;

(g) any debt default or any breach of a debt covenant that has not been corrected subsequently; and

(h) related party transactions.

7.5.3 The disclosures required by paragraph 7.5(c) may be made on a net basis where that is permitted under Accounting Standard AASB 1026 and Australian Accounting Standard AAS 28 “Statement of Cash Flows”.

7.5.4 The disclosures required by paragraph 7.5(e) are made in accordance with Accounting Standard AASB 1005 “Segment Reporting”.

7.6 Voluntary disclosures in addition to the minimum required by paragraphs 7.1 to 7.5, if dealt with by other applicable AASB Standards or AAS Standards, must be made in a manner consistent with those Standards.

7.6.1 Other AASB Standards or AAS Standards specify disclosures that must be made in the annual financial report. The disclosures required by those Standards are not required if the *entity’s interim financial report* comprises only condensed *financial statements* and the disclosures required by paragraphs 7.1 to 7.5. Where the *entity* voluntarily includes disclosures in the *interim financial report* in addition to the minimum required by paragraphs 7.1 to 7.5 that are dealt with by other AASB Standards or AAS Standards, it makes the additional disclosures in a manner consistent with those Standards.

Disclosure in Annual Financial Reports

7.7 Where there is a change in an *accounting policy* during the final current *interim period* of the *annual reporting period* but a separate *interim financial report* is not published for that final current *interim period,* the nature of the change in *accounting policy* and the financial effect of the change on prior *interim financial reports* of the current *annual reporting period* must be disclosed in the notes in the annual financial report for that *annual reporting period.*

7.8 If an estimate of an amount reported in a prior *interim period* of the *annual reporting period* is revised significantly during the final current *interim period* of that *annual reporting period* but a separate *interim financial report* is not published for that final current *interim period,* the nature and amount of the revision in estimate must be disclosed in the notes in the annual financial report for that *annual reporting period.*

7.8.1 Paragraph 6.2 prescribes the accounting for, and paragraph 7.4(e) prescribes disclosures of, a change in *accounting policy* in an *interim period.* In the absence of the requirement in paragraph 7.7, the financial effect of the change in *accounting policy* in the final current *interim period* on previous *interim financial reports* of the *annual reporting period* may not be reported to users. An *entity* changing an *accounting policy* in the final current *interim period* accounted for in the annual financial report in accordance with Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 "Accounting Policies", would not necessarily disclose the financial effect of the change on previous *interim periods.* Accordingly, when there is a change in an *accounting policy* during the final current *interim period* of the *annual reporting period* and a separate financial report is not published for that final current *interim period,* paragraph 7.7 requires the nature of the change in *accounting policy,* and the financial effect of the change on the previous *interim financial reports* of the *annual reporting period* to be disclosed in notes in the annual financial report for that *annual reporting period.* If the *entity* does not prepare *interim financial reports* other than for the first half-year, the requirements of paragraph 7.7 apply where there is a change in *accounting policy* between the first half-year *reporting date* and the annual *reporting date.*

7.8.2 Accounting Standard AASB 1018 and Australian Accounting Standard AAS 1 "Statement of Financial Performance" require disclosure of the nature and amount of a revision of an accounting estimate which affects the reported financial performance or financial position of the current *annual reporting period*, or is expected to have an effect on the financial performance or financial position of subsequent *annual reporting periods*. Paragraph 7.5(b) of this Standard requires similar disclosure in an *interim financial report*. Examples of revisions of estimates in the final current *interim period* that are required to be disclosed by paragraph 7.8 are estimates relating to inventory write-downs and restructuring *expense*s, or impairment losses that were reported in an earlier *interim period* of the *annual reporting period.* Where the *entity* does not prepare *interim financial reports* other than for the first half-year, the requirements of paragraph 7.8 apply if there is a significant revision of an estimate of amount reported in the first half-year *financial statements* between the half-year *reporting date* and the annual *reporting date.* The disclosure required by paragraph 7.8 in respect of revisions of estimates is consistent with AASB 1018 and AAS 1 requirements.

8 Periods for which Interim Financial Statements and Notes are Presented

8.1 Subject to paragraph 8.2, *interim financial reports* must include interim *financial statements* and other disclosures for periods as follows:

(a) *statement of financial position* as at the end of the current *interim period* and a comparative *statement of financial position* as at the end of the immediately preceding *annual reporting period*;

(b) *statements of financial performance* for the current *interim period* and cumulatively for the annual reporting period-to-date, with comparative *statements of financial performance* for the comparable *interim period*s (current and annual reporting period-to-date) of the immediately preceding *annual reporting period*; and

(c) statement of cash flows cumulatively for the current annual reporting period-to-date, with a comparative statement of cash flows for the comparable annual reporting period-to-date of the immediately preceding *annual reporting period.*

8.1.1 Where the *entity's* operations are highly seasonal, financial information for the twelve months ending on the interim *reporting date* and comparative information for the prior twelve-month period may be useful. Accordingly, *entities* whose business is highly seasonal are encouraged to report such information in addition to the information required by paragraph 8.1.

8.1.2 Paragraph 8.1(c) sets out the minimum presentation requirements in respect of the *entity's* cash flows. It is expected that cash flow information for a current *interim period* would provide useful information. Accordingly, this Standard encourages the presentation of a statement of cash flows for the current *interim period* and the comparable *interim period* of the immediately preceding *annual reporting period.*

8.1.3 Where the *entity* does not prepare *interim financial reports* other than for the first half-year, the first half-year and the annual reporting period-to-date *interim period* coincide. Accordingly, in contrast with an *entity* that prepares *interim financial reports* more frequently than half yearly, for example quarterly, there would be reduced presentation requirements under paragraph 8.1.

8.1.4 Comparative *interim periods* (current or annual reporting period-to-date) refer to the corresponding calendar periods within the immediately preceding *annual reporting period.* In certain circumstances, such as when the current or immediately preceding *annual reporting period* differs from twelve months (see paragraph 9.1.1), the current or annual reporting period-to-date *interim periods* may differ in length from, or may not directly correspond with, their comparative counterpart. Disclosure of the length of the *interim period* is made in accordance with paragraph 7.4 (a).

8.2 Comparative information need not be provided under paragraph 8.1 where this Standard is being applied for the first time and:

(a) the Standard superseded by this Standard applied to the *entity* in the preceding corresponding *interim period* and the superseded Standard did not require disclosure of information which corresponds to the information required to be disclosed by this Standard; or

(b) either the Standard superseded by this Standard or this Standard did not apply to the *entity* in the preceding corresponding *interim period.*

8.2.1 Where an *entity* applied the Standard superseded by this Standard in the preceding corresponding *interim period*, disclosure of comparative information is required in relation to any information required to be disclosed by the superseded Standard which corresponds to the information required to be disclosed by this Standard.

8.2.2 In relation to the preparation of a consolidated *interim financial report* of an *economic entity*, comparative information is not required for the first *interim period* after an *entity* becomes a *parent entity*.

8.2.3 Disclosure of comparative information is encouraged where, in accordance with paragraph 8.2, disclosure of comparative information is not required.

8.2.4 Appendix 1 illustrates the periods required to be presented by an *entity* that reports half-yearly and an *entity* that reports quarterly.

9 Definitions

9.1 The following terms are used in this Standard with the meanings specified:

***accounting policies* means the specific accounting principles, bases or rules adopted in preparing and presenting the financial report**

***annual reporting period* means the *financial year* or similar period to which an annual financial report relates**

***assets* means future economic benefits controlled by the *entity* as a result of past transactions or other past events**

***business segment* means a distinguishable component of an *entity* and that component is engaged in providing an individual product or service or a group of related products or services and is subject to risks and returns that are different from those of other distinguishable components of the *entity*. Factors to be considered in determining whether products and services are related include:**

(a) the nature of the products or services;

(b) the nature of the production processes;

(c) the type or class of customer for the products or services;

(d) the methods used to distribute the products or provide the services; and

(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities

discontinuing operation **means a major component of an *entity*:**

(a) that the *entity's* management or governing body has developed a single plan to:

(i) dispose of in its entirety through one or more transactions; or

(ii) abandon; or

(iii) terminate through a combination of one or more transactions and abandonment;

(b) that represents a separate major activity or geographical area of operations; and

(c) that can be separately identified for operational and financial reporting purposes

economic entity **means a group of *entities* comprising the *parent entity* and each of its *subsidiaries***

entity **means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives**

equity **means the residual interest in the *assets* of the *entity* after deduction of its *liabilities***

expenses **means consumptions or losses of future economic benefits in the form of reductions in *assets* or increases in *liabilities* of the *entity*, other than those relating to distributions to owners, that result in a decrease in *equity* during the reporting period**

extraordinary items **means items of *revenue* and *expense* that are attributable to transactions or other events of a type that are outside the *ordinary activities* of the *entity* and are not of a recurring nature**

financial statements **means *statement of financial performance, statement of financial position* and statement of cash flows**

fundamental errors **means *material* errors discovered in the current reporting period such that the financial report of one or more prior reporting periods can not now be considered to have been *reliable* at the dates of their issue**

general purpose financial report **means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs**

geographical segment **means a distinguishable component of an *entity* and that component is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of components operating in other geographical areas. Factors to be considered in identifying geographical segments include:**

(a) similarity of economic and political conditions;

(b) relationships between operations in different geographical areas;

(c) proximity of operations;

(d) special risks associated with operations in a particular area;

(e) exchange control regulations; and

(f) the underlying currency risks

initial disclosure event **means the occurrence of one of the following, whichever occurs earlier:**

(a) the *entity* has entered into a binding sale agreement for all of the *assets* attributable to the *discontinuing operation*; or

(b) the *entity's* management or governing body has both:

(i) approved a detailed, formal plan for the discontinuance; and

(ii) made an announcement of the plan,

such that it is highly unlikely that the *entity* will withdraw from the discontinuance

interim financial report* means a financial report for an *interim reporting period

interim reporting period (interim period)* means a reporting period within an *annual reporting period* that is shorter than that *annual reporting period

***liabilities* means the future sacrifices of economic benefits that the *entity* is presently obliged to make to other *entities* as a result of past transactions or other past events**

materiality* means, in relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body of the *entity

***net profit or loss/result* means**

(a) in the case of an *entity* that is not an *economic entity*, profit or loss/result after income tax expense (income tax revenue) from *ordinary activities* and *extraordinary items*; and

(b) in the case of an *entity* that is an *economic entity*, profit or loss/result after income tax expense (income tax revenue) from *ordinary activities* and *extraordinary items*, before adjustment for that portion that can be attributed to outside equity interest

***ordinary activities* means activities that are undertaken by an *entity* as part of its business or to meet its objectives and related activities in which the *entity* engages in furtherance of, incidental to, or arising from activities undertaken to meet its objectives**

parent entity* means an *entity* which controls another *entity

recognised **means reported on, or incorporated in amounts reported on, the face of the *statement of financial performance* or the *statement of financial position* (whether or not further disclosure of the item is made in notes)**

relevance **means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:**

(a) helping them form predictions about the outcomes of past, present or future events; or

(b) confirming or correcting their past evaluations;

and which enables users to assess the discharge of accountability by the management or governing body of the *entity*

reliability **means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or other events that either it purports to represent or could reasonably be expected to represent**

reporting date **means the end of the reporting period to which the financial report relates**

reporting entity **means an *entity* (including an *economic entity*) in respect of which it is reasonable to expect the existence of users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:**

(a) a *disclosing entity*; and

(b) a *company* which is not a *subsidiary* of a *holding company* incorporated in Australia and which is a *subsidiary* of a foreign company where that foreign company has its securities listed for quotation on a *stock market* or those securities are traded on a *stock market*

revenues **means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in *assets* or reductions in *liabilities* of the *entity*,**

other than those relating to contributions by owners, that result in an increase in *equity* during the reporting period

***segment result* is *segment revenues* less segment expenses. Segment result is determined before any adjustments for outside equity interest**

segment revenues* means operating *revenues recognised* in the *entity's* profit (loss)/result from *ordinary activities* before income tax expense (income tax revenue) resulting from the operating activities of a segment that are directly attributable to a segment and the relevant portion of other *revenues* that can be allocated on a reasonable basis to the segment, whether from sales to external customers or from transactions with other segments of the same *entity*. Segment revenues do not include*:

(a) ***extraordinary items*;**

(b) **interest or dividend income, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; and**

(c) **gains on sales of investments or gains on extinguishment of debt unless the segment's operations are primarily of a financial nature**

***subsidiary* means an *entity* which is controlled by a *parent entity*.**

Annual Reporting Period

9.1.1 The definition of *annual reporting period* refers to *financial year* or similar period and will normally be a twelve-month period. The *annual reporting period* will differ from twelve months in circumstances such as:

(a) the *entity* being established on a date other than a date exactly twelve months before the *reporting date*; and

(b) the *entity* changing its *reporting date.*

Interim Reporting Period

9.1.2 An *interim reporting period* is a reporting period shorter than the *annual reporting period.* In certain circumstances such as when the *annual reporting period* differs from twelve months (see paragraph 9.1.1), an *interim reporting period*, whether current or annual reporting period-to-date, may differ in length from the equivalent period for the preceding *annual reporting period*.

Corporations Law Definitions

9.2 In this Standard, the following definitions apply to each *disclosing entity* that is required to prepare *half-year* financial reports in accordance with Part 2M.3 of the Corporations Law:

company **is defined in the Corporations Law**

concise financial report **is defined in the Corporations Law**

disclosing entity **is defined in the Corporations Law**

financial year **is defined in the Corporations Law**

holding company **is defined in the Corporations Law**

half-year **is defined in the Corporations Law**

statement of financial performance **means profit and loss statement as required by the Corporations Law**

statement of financial position **means the balance sheet as required by the Corporations Law**

stock market **is defined in the Corporations Law.**

Financial Statements

9.2.1 Section 295(2) of the Corporations Law stipulates that the *financial statements* for the year constitute (a) a profit and loss statement for the year, (b) a balance sheet as at the end of the year and (c) a statement of cash flows for the year. The *financial statements* also include a consolidated profit and loss statement, balance sheet and statement of cash flows if required by accounting standards. The *financial statements* are prepared in accordance with Accounting Standards AASB 1018 "Statement of Financial Performance", AASB 1026 "Statement of Cash Flows" and AASB 1040 "Statement of Financial Position".

9.2.2 Section 303(2) of the Corporations Law stipulates that the *financial statements* for the *half-year* constitute (a) a profit and loss statement for the *half-year*, (b) a balance sheet for the *half-year* and (c) a statement of cash flows for the *half-year*. The *financial statements* also include a consolidated profit and loss statement, balance sheet and statement of cash flows if required by accounting standards. The *half-year financial statements* are prepared according to this Standard, which requires, as a minimum, a condensed *statement of financial performance*, a condensed *statement of financial position* and a condensed statement of cash flows for the *half-year*. Accordingly, *half-year* financial reports may include *financial statements* rather than condensed *financial statements*.

APPENDICES

The Appendices form part of the commentary and are provided for illustrative purposes only.

APPENDIX 1

ILLUSTRATION OF PERIODS REQUIRED TO BE PRESENTED

This Appendix provides examples to illustrate application of the requirements in paragraph 8.1 to assist in explaining their meaning.

Entity Publishes Interim Financial Reports Half-Yearly

1. The entity's annual re porting period ends on 31 December. The entity will present the following financial statements in its half-yearly interim financial report as of 30 June 2002:

Statement of financial position:		
As at	30 June 2002	31 December 2001
Statement of financial performance:		
half-year ending	30 June 2002	30 June 2001
Statement of cash flows:		
half-year ending	30 June 2002	30 June 2001

Entity Publishes Interim Financial Reports Quarterly

2. The entity's annual reporting period ends on 31 December. The entity will present the following financial statements in its quarterly interim financial report as of 30 June 2002:

Statement of financial position:		
As at	30 June 2002	31 December 2001
Statement of financial performance:		
half-year ending	30 June 2002	30 June 2001
quarter ending	30 June 2002	30 June 2001
Statement of cash flows:		
half-year ending	30 June 2002	30 June 2001

APPENDIX 2

EXAMPLES OF APPLYING THE RECOGNITION CRITERIA AND MEASUREMENT BASES

This Appendix provides examples of applying the general recognition and measurement requirements set out in Section 6 of the Standard to assist in explaining their meaning.

Employer Insurance Contributions

1. Employer contributions to government-sponsored insurance funds (such as workers' compensation insurance funds) may be assessed on an annual basis. Using the accrual basis of accounting, the employer's related expense and any liability or asset is recognised in interim periods by applying an estimated annual effective contribution rate, even though a large portion of the payments may be made early in the annual reporting period. An example is an employer insurance contribution that is imposed up to a certain maximum level of salary per employee. For higher income employees, the maximum salary is reached before the end of the annual reporting period, and the employer makes no further payments through to the end of the annual reporting period for those employees.

Year-End Bonuses

2. The nature of year-end bonuses varies widely. Some simply vest during an employment period. Others are earned based on a monthly, quarterly or annual measure of operating result. They may be purely discretionary, contractual or based on historical precedent.

3. A bonus is recognised as a liability for interim reportin g purposes when, and only when the bonus is a legal or a constructive obligation for which the entity has no realistic alternative but to settle the liability, and the amount of the liability is capable of being measured reliably.

4. Assume an entity has a bonus plan which requires it to pay 2.6 percent of its net profit for the annual reporting period to its employees. The entity's expected net annual profit for the purpose

of determining bonus entitlements is $3.5m. As the entity is obligated to pay the bonuses on an annual basis, the proportionate recognition of the bonus expense in the interim financial reports is consistent with the general approach to its annual determination. In this case, for example, a liability of $45,500 [(3.5m $\times$ 2.6%) $\div$ 2] is recognised at the end of the second quarter.

Contingent Lease Payments

5. Contingent lease payments can be an example of a legal or constructive obligation that is recognised as a liability at the end of the interim period. If a lease provides for contingent payments based on the lessee achieving a certain level of annual sales, an obligation arises in the interim periods of the annual reporting period before the required annual level of sales has been achieved, if that required level of sales is expected to be achieved and the entity, therefore, has no realistic alternative but to make the future lease payment.

Measuring Interim Income Tax Expense[2]

6. Income tax is assessed on an annual basis. As noted in paragraph 6.1.4 of this Standard, the interim per iod income tax expense is accrued by applying the estimated annual effective income tax rate to the pre-tax profit of the interim period.

7. Assume an entity expects profit before tax of $60,000 in the first quarter and $30,000 in each of the remaining quarters. All profits are taxable in one jurisdiction at a 40 per cent rate and the entity expects a tax credit for the year of $15,000 (see paragraph 14 of this Appendix). No event having future tax consequences is expected. The annual effective income tax rate is calculated as follows:

[2] This section is only concerned with the estimation of interim income tax expense and does not deal with the determination of deferred tax liabilities including the deferred tax liabilities relating to items directly credited to equity during the interim period. The illustrations are based on the revised Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3 "Income Taxes". Where the superseded AASB 1020 or AAS 3 is being applied, the requirements of this Standard would be applied in a manner consistent with the requirements of the superseded AASB 1020 and AAS 3.

Tax at statutory rate of 40% ($150,000 × 40%)	$60,000
Less: tax offset	($15,000)
Tax expense	$ 45,000
Estimated annual effective tax rate ($45,000 ÷ $150,000)	30%

Consistent with paragraph 6.4 of this Standard, the estimated annual effective income tax rate is applied to the annual reporting period-to-date profit to calculate the annual reporting period-to-date tax expense. The income tax expense for the current interim period is the difference between the amount so calculated and the annual reporting period-to-date amount reported for the previous interim period. Assuming actual profits match expectations, and the annual reporting period and the tax year coincide (see paragraphs 12 and 13 of this Appendix), the tax expense in each quarter is determined as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Profit before tax (current interim period)	$60,000	$30,000	$30,000	$30,000	$150,000
Profit before tax (annual reporting period-to-date)	$60,000	$90,000	$120,000	$150,000	
Estimated annual effective tax rate	30%	30%	30%	30%	
Tax expense (annual reporting period-to-date)	$18,000	$27,000	$36,000	$45,000	
Tax expense (previously recognised)	-	$18,000	$27,000	$36,000	
Tax expense (current interim period)	$18,000	$9,000	$9,000	$9,000	$45,000

8. Assume an entity reporting quarterly expects to earn $10,000 pre-tax profit each quarter and operates in a jurisdiction with a tax rate of 20 per cent on the first $20,000 of taxable income and 30 per cent on all additional amounts. Accordingly, $10,000 of tax is expected to be payable for the full year on $40,000 of pre-tax profit which gives an estimated annual effective income tax rate of 25 per cent. Assuming actual profits match expectations, and the annual reporting period and the tax year coincide, the following table shows the amount of income tax expense that is recognised in each quarter (see paragraph 7 of this Appendix):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense	$2,500	$2,500	$2,500	$2,500	$10,000

9. The statutory tax rate is used as a proxy for the estimated annual effective income tax rate when the entity's annual result is expected to be at break-even. As an illustration, an entity that reports quarterly, earns $15,000 pre-tax profit in the first quarter but expects to incur losses of $5,000 in each of the three remaining quarters (thus having zero profit for the annual reporting period), and operates in a jurisdiction in which the estimated annual effective income tax rate is expected to be 20 per cent (the lowest marginal statutory income tax rate in a progressive tax regime or the statutory income tax rate in a flat tax regime). Applying that rate to the annual reporting period to-date profit or loss/result figures, the following table shows the amount of income tax expense (income tax revenue) that is recognised in each quarter:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense	$3,000	($1,000)	($1,000)	($1,000)	$0

The nil tax for the full annual reporting period is, conceptually, 20 per cent of zero profit.

10. Because Australian entities are not generally subject to progressive income tax rates, the calculation of the annual effective income tax rate is straightforward. However, Australian entities may operate in foreign jurisdictions through overseas subsidiaries that are subject to a progressive tax regime and therefore need to perform calculations to estimate a weighted average annual effective income tax rate.

11. To the extent practicable, a separate estimated annual effective income tax rate is determined for each taxing jurisdiction and

applied individually to the interim period pre-tax profit or loss/result of each jurisdiction. Similarly, if different income tax rates apply to different categories of taxable income (such as capital gains or income earned in particular industries), to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax profit or loss/result. Whilst that degree of precision is desirable, it may not be achievable in all cases, and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

Difference in Annual Reporting Period and Income Tax Year

12. If the annual reporting period and the income tax year differ, income tax expense for the interim periods of that annual reporting period is measured using separate estimated effective income tax rates for each of the income tax years, applied to the portion of pre-tax profit earned in each of those income tax years.

13. Assume an entity's annual reporting period ends on 30 June and it reports quarterly. Its income tax year ends on 31 December. For the annual reporting period that begins on 1 July, Year 1 and ends on 30 June, Year 2, the entity earns $10,000 pre-tax profit each quarter. The estimated annual effective income tax rate is 30 per cent in Year 1 and 40 per cent in Year 2.

	Quarter Ending 30 Sept Year 1	Quarter Ending 31 Dec Year 1	Quarter Ending 31 Mar Year 2	Quarter Ending 30 June Year 2	Year Ending 30 June Year 2
Tax expense	$3,000	$3,000	$4,000	$4,000	$14,000

Tax Offsets (Credits and Rebates)

14. Some tax jurisdictions give taxpayers tax offsets against tax otherwise payable based on amounts of capital expenditures, exports, research and development expenditures, or other bases. Anticipated tax offsets of this type for the annual reporting period are reflected in calculating the estimated annual effective income tax rate (see paragraph 6.1.4 of this Standard and paragraph 7 of this Appendix) if those offsets are expected to be granted in the remainder of the annual reporting period during which time the entity achieves a certain level of expenditure or exports. On the other hand, a tax offset that relates to a one-time event is recognised

in calculating income tax expense in that interim period (such as a one-time tax offset relating to the purchase of an item of equipment), in the same way that special tax rates applicable to particular categories of income are not blended into a single annual effective income tax rate. Moreover, in some jurisdictions tax offsets, including those related to capital expenditures and levels of exports, while reported on the income tax return, are more akin to a government grant and are recognised as revenue in net profit or loss/result in the interim period in which they arise.

Tax Loss Carrybacks and Carryforwards

15. The benefits of a tax loss carryback are reflected in the interim period in which the related tax loss occurs. Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3 "Income Taxes" require that the benefit relating to a tax loss, which tax laws in some jurisdictions allow to be carried back to recover income tax paid or payable relating to a previous reporting period, be recognised as an asset to the extent that the tax loss will be carried back. A corresponding reduction of income tax expense or increase of income tax revenue is also recognised.

16. AASB 1020 and AAS 3 require that a deferred tax asset arising from the carryforward of unused tax losses be recognised to the extent, and only to the extent, that it is probable that future taxable amounts within the entity will be available against which the unused tax losses can be utilised. AASB 1020 and AAS 3 provide criteria for assessing the probability of the availability of taxable amounts against which the unused tax losses can be utilised. Those criteria are applied at the end of each interim period and, if they are met, the effect of the tax loss carryforward is reflected in the calculation of the estimated annual effective income tax rate.

17. Assume an entity that reports quarterly has an unused tax loss carryforward of $10,000 for income tax purposes at the start of the current annual reporting period for which a deferred tax asset has not been recognised. The entity earns $10,000 in the first quarter of the current annual reporting period and expects to earn $10,000 in each of the three remaining quarters, and will use the tax loss to offset any taxes that would otherwise be payable. The statutory income tax rate is 40 per cent. Including the effect of the tax loss carryforward, the estimated annual effective income tax rate would be 30 per cent $[((10{,}000 \times 4 - 10{,}000) \times 40\%) \div 40{,}000]$. Income tax expense is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense	$3,000	$3,000	$3,000	$3,000	$12,000

Contractual or Anticipated Purchase Price Changes

18. Volume rebates or discounts and other contractual changes in the prices of raw materials, labour or other purchased goods and services are anticipated in interim periods, by the payer (and the recipient), if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated but discretionary rebates and discounts are not anticipated because the resulting asset or liability would not satisfy the definition of an asset (future economic benefits controlled by the entity as a result of past transactions or other past events) and a liability (a future sacrifice of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events).

Provisions

19. A provision is recognised when an entity has no realistic alternative but to make a transfer of economic benefits as a result of an event that has created a legal or constructive obligation. The amount of the obligation is adjusted upward or downward, with a corresponding expense or revenue recognised in the statement of financial performance, if the entity's best estimate of the amount of the obligation changes.

20. This Standard requires that an entity apply the same criteria and bases for recognising and measuring a provision at an interim reporting date as it would at the end of its annual reporting period. The existence or non-existence of an obligation to make a future sacrifice of economic benefits is not a function of the length of the reporting period. It is a question of fact, determined as at each reporting date.

Major Planned Periodic Maintenance or Overhaul

21. The cost of planned major periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the annual reporting period is not anticipated for interim financial reporting purposes unless an event has caused the entity to have a legal or

constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

Other Planned but Irregularly Occurring Costs

22. An entity's budget may include certain discretionary costs expected to be incurred irregularly during the annual reporting period, such as charitable contributions and employee training costs. Recognising an obligation at an interim reporting date for such costs that have not yet been incurred is not consistent with the definition of a liability (even though they are planned and tend to recur annually).

Intangible Assets

23. An entity applies the definition and recognition criteria for an intangible asset in the same way in an interim period as for an annual reporting period. Costs incurred before the recognition criteria for an intangible asset are met are recognised as an expense. Costs incurred after the specific point in time at which the criteria are met are recognised as part of the cost of an intangible asset. "Recognising" costs as assets in an interim statement of financial position in the expectation that the recognition criteria will be met later in the annual reporting period is not justified.

Inventories

24. Inventories are recognised and measured for interim financial reporting purposes using the same criteria and bases as at the end of the annual reporting period. Accounting Standard AASB 1019 and Australian Accounting Standard AAS 2 "Inventories" establish standards for recognising and measuring inventories. Inventories pose particular problems at any reporting date because of the need to determine inventory quantities, costs and net realisable values. Nonetheless, the same measurement bases are applied to inventories for interim reporting purposes. To save cost and time, entities often use estimates to measure inventories at an interim reporting date to a greater extent than at the annual reporting date. Following are examples of how to apply the net realisable value test at an interim reporting date, and how to treat manufacturing variances at an interim reporting date.

Net Realisable Value of Inventories

25. The net realisable value of inventories is determined by reference to selling prices and costs expected to be incurred to complete and dispose of the inventories at interim reporting dates. An entity reverses a write-down to net realisable value in a subsequent interim period only if it would be appropriate to do so in similar circumstances at the end of the annual reporting period.

Interim Period Manufacturing Cost Variances

26. Price, efficiency, spending and volume variances of a manufacturing entity are recognised in the determination of profit for an interim period to the same extent that those variances are recognised in the determination of profit for an annual reporting period. "Deferring" variances that are expected to be absorbed by the end of the annual reporting period is not appropriate because it could result in reporting inventory at the interim reporting date at more or less than its portion of the actual cost of manufacture.

Depreciation and Amortisation

27. Depreciation and amortisation for an interim period is based only on assets controlled during that interim period. It does not take into account asset acquisitions or dispositions planned for later in the annual reporting period.

Foreign Currency Translation Gains and Losses

28. Foreign currency translation gains and losses are measured for interim financial reporting purposes using the same bases as for annual financial reporting.

29. Accounting Standard AASB 1012 "Foreign Currency Translat ion" specifies how to translate the financial reports of foreign operations and foreign currency items into the reporting currency. Entities do not anticipate any future changes in foreign exchange rates in the remainder of the current annual reporting period in translating foreign operations and foreign currency items at an interim reporting date.

30. In cases where AASB 1012 requires that translation adjustments be recognised as revenues or as expenses in the period in which they arise, that requirement is applied during each interim period.

Entities do not defer some foreign currency translation adjustments at an interim reporting date on the basis that the adjustment is expected to reverse before the end of the annual reporting period.

Interim Financial Reporting in Hyperinflationary Economies

31. Interim financial reports in hyperinflationary economies are prepared using the same accounting policies as for annual financial reporting.

32. Exposure Draft ED 86 "Foreign Currency Translation" proposes to amend AASB 1012 to require the financial reports of an entity that reports to the parent entity in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at reporting date, and the gain or loss on the net monetary position be included in net profit or loss/result. Also, comparative financial information reported for prior periods is to be restated to the current measuring unit.

33. Entities follow those same accounting policies at interim reporting dates, thereby presenting all interim information in the measuring unit as of the end of the interim period, with the resulting gain or loss on the net monetary position included in the interim period's net profit or loss/result. Entities do not annualise the recognition of the gain or loss. Nor do they use an estimated annual inflation rate in preparing an interim financial report in a hyperinflationary economy.

CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

Conformity with International Accounting Standards

As at the date of issue of AASB 1029 "Interim Financial Reporting", compliance with AASB 1029 will ensure conformity with International Accounting Standard IAS 34 "Interim Financial Reporting".

Conformity with New Zealand Accounting Standards

As at the date of issue of AASB 1029 "Interim Financial Reporting", compliance with AASB 1029 will ensure conformity with Financial Reporting Standard FRS-24 "Interim Financial Statements" except that FRS-24:

(a) requires additional explanations in relation to the consequences of applying the discrete view where such explanations are necessary in order to achieve the objectives of general purpose financial reporting;

(b) prescribes the line items and headings to be used in interim financial reports;

(c) requires the previous annual reporting period's statement of financial performance and statement of cash flows, and the statement of financial position as at the end of the previous corresponding interim period to be included in the interim financial report as comparative information, except where the interim financial statements are being prepared for the first time; and

(d) requires a number of additional disclosures.

BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the development of the Standard.

1 The reissue of the Standard is part of a program commenced by the former Australian Accounting Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation (the former Boards) to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee. The reconstituted Australian Accounting Standards Board (AASB) is continuing this program and has issued the Standard as part of a single series of Standards rather than in the former two series as both an Accounting Standard and an Australian Accounting Standard.

2. The issue of the Standard follows consideration of the responses received on Exposure Draft ED 96 "Interim Financial Reporting", which was prepared by the former Boards and released in October 1998. ED 96 contained proposals aimed at harmonising Australian accounting standards with International Accounting Standard IAS 34 "Interim Financial Reporting".

Principal Features of ED 96 Retained in the Standard

3 The Standard retains the basic structure and content of ED 96 including the proposal that the accounting policies adopted in interim financial reports must be the same as those adopted in annual financial reports. This requirement is consistent with that of IAS 34 "Interim Financial Reporting". Thus, the discrete approach is adopted as the primary conceptual basis for interim financial reporting. The AASB is of the view that the use of the same recognition criteria and measurement bases as in annual financial reports results in assets, liabilities, equity, revenues and expenses reported in the interim financial report that conform to the concepts in Statement of Accounting Concepts SAC 4 "Definition and Recognition of the Elements of Financial Statements". The Standard reflects the view that certain items of revenues and expenses that are dependent on the annual level of activity should be determined at the interim reporting date by taking into account the estimated revenues and expenses for the whole annual reporting period. The approach is explained in paragraphs 6.1.3, 6.1.4 and 6.1.5 of the Standard.

Noteworthy Differences from ED 96

4. After consideration of comments received on ED 96, new paragraphs were included in the Standard to further explain or highlight certain issues. Noteworthy differences between ED 96 and the Standard include the following:

   (a) ED 96 explicitly proposed that, for the purposes of preparing interim financial reports, each interim period be treated as a discrete reporting period. IAS 34 avoids labelling its approach to interim financial reporting by expressing the requirement in terms of the accounting policies adopted in annual financial reports. In the interest of harmonisation, the first sentence of paragraph 6.1 of ED 96, which explicitly referred to the term "discrete" was deleted;

   (b) some commentators interpreted ED 96 as proposing an "all or minimal" approach to interim financial reporting. To avoid this interpretation, the Standard clarifies that the entity can include financial statements or notes in the interim financial report that go beyond the minimum required, but do not fully conform with all Australian accounting standards;

   (c) ED 96 noted that the preparation of interim financial reports generally requires a greater use of estimation methods than annual financial reports. Where different estimation methods are used in the interim financial report as compared with the most recent annual financial report, the Standard requires disclosure of a description of the nature of those methods in the notes in the interim financial report;

   (d) ED 96 did not propose requirements regarding the labelling of condensed financial statements. To avoid any misunderstanding, the Board decided that the Standard should require that condensed financial statements be clearly labelled as such and that there be note disclosure in cases where the interim financial report does not constitute a full financial report;

   (e) ED 96 did not explicitly make proposals in relation to voluntary disclosures in interim financial reports. The Standard requires that additional disclosures that are dealt with by other Australian accounting standards be made in accordance with those standards;

(f) paragraph 7.3 of ED 96 dealt with disclosure in the notes in the annual financial report of the nature and amount of significant revisions of estimates in the final current interim period of the annual reporting period when a separate financial report is not published for that final current interim period. The Board decided that the nature and effects of a change in accounting policy under the same circumstances is also of significance and the Standard requires disclosure in such cases; and

(g) some commentators noted that a proposal to require the disclosure of the effect of planned changes in the composition of the entity is implicitly covered by other disclosure requirements of ED 96. Accordingly, the Standard does not require this disclosure.

Principal Changes from the Previous Standard

5. The principal differences between the Standard and the previous Accounting Standard AASB 1029 "Half-Year Accounts and Consolidated Accounts" include:

(a) the previous Standard applied only to disclosing entities required to prepare half-year accounts or consolidated accounts under the Corporations Law. The Standard applies to all entities preparing general purpose interim financial reports of any length including, disclosing entities required to prepare half-year financial reports in accordance with the Corporations Law;

(b) the previous Standard required certain disclosures relating to the external auditor's audit or review report. The Standard does not require such information to be disclosed because it was considered by the Board as falling outside the scope of interim financial reporting;

(c) the previous Standard required the disclosure of balance sheet information as at the end of the previous financial year and as at the end of the previous corresponding half-year. The Standard only requires the presentation of the statement of financial position as at the end of the previous annual reporting period. When the entity's operations are highly seasonal, the Standard encourages reporting of financial information for the twelve months ending on the interim reporting date and comparative information for the prior twelve-month period on the grounds that, in the circumstances, the provision of such information would prove useful; and

(d) the previous Standard did not provide explicit guidance on annually determined items. To enhance the consistent application of the requirements, the Standard notes that such items should be determined at the interim reporting date by taking into account the estimated revenues and expenses for the whole annual reporting period and provides an appendix containing explanatory examples.