

# Interpretations and *IFRS for SMEs*

---

## 1. Executive Summary

### Main differences in recognition, measurement or presentation requirements

The recognition and measurement requirements of the Interpretations are consistent with the recognition and measurement requirements of full IFRS as adopted in Australia.

Accordingly, any differences in recognition and measurement stem from differences in the full IFRS as adopted in Australia, for example the references to revaluation in Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, compared with the *IFRS for SMEs*, which does not permit revaluation.

The *IFRS for SMEs* incorporates the conclusions of the following Interpretations, which are considered to address transactions and circumstances that SMEs would often encounter:

- \* IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*
- \* IFRIC 4 *Determining Whether an Arrangement Contains a Lease*
- \* IFRIC 8 *Scope of IFRS 2*
- \* IFRIC 12 *Service Concession Arrangements*
- \* IFRIC 13 *Customer Loyalty Programmes*
- \* IFRIC 15 *Agreements for the Construction of Real Estate*
- \* IFRIC 17 *Distributions of Non-cash Assets to Owners*
- \* SIC-12 *Consolidation-Special Purpose Entities*

### Disclosure proposals

It is proposed to exclude from the Reduced Disclosure Regime (RDR):

- paragraph 19 of Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*;
- paragraph 15 of Interpretation 4 *Determining whether an Arrangement contains a Lease*;
- paragraphs 11, 12 and 13 of Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*;
- paragraphs 20 and 21 of Interpretation 15 *Agreements for the Construction of Real Estate*;
- paragraphs 16 and 17 of Interpretation 17 *Distributions of Non-cash Assets to Owners*;
- paragraphs 10 and 11 of Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*;
- paragraphs 6 and 6A of Interpretation 129 *Service Concession Arrangements: Disclosures*;
- paragraph 10 of Interpretation 1019 *The Superannuation Contributions Surcharge*;
- paragraph 9 of Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations*; and
- paragraph 16 of Interpretation 1052 *Tax Consolidation Accounting*.

## Matrix comparison: disclosure requirements

<b>Text in Interpretation 1</b> <b><i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i></b>	<b>Comments/Recommendations</b>
<p>6(d) AASB 101 requires disclosure in the statement of comprehensive income of each component of other comprehensive income or expense. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.</p>	<p>Whilst AASB 116 permits the cost model or revaluation model for measuring property, plant and equipment after initial recognition, the <i>IFRS for SMEs</i> requires the cost model. Paragraph 6(d) should be retained in the RDR based on IN6(d) of this Appendix.</p>
<b>Text in Interpretation 2</b> <b><i>Members' Shares in Co-operative Entities and Similar Instruments</i></b>	<b>Comments/Recommendations</b>
<p>13 When a change in the redemption prohibition leads to a transfer between financial liabilities and equity, the entity shall disclose separately the amount, timing and reason for the transfer.</p>	<p>Paragraph 13 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>
<b>Text in Interpretation 4</b> <b><i>Determining whether an Arrangement contains a Lease</i></b>	<b>Comments/Recommendations</b>
<p>15 If a purchaser concludes that it is impracticable to separate the payments reliably, it shall:</p> <ul style="list-style-type: none"> <li>(a) in the case of a finance lease, recognise an asset and a liability at an amount equal to the fair value of the underlying asset that was identified in paragraphs 7 and 8 as the subject of the lease. Subsequently the liability shall be reduced as payments are made and an imputed finance charge on the liability recognised using the purchaser's incremental borrowing rate of interest or</li> <li>(b) in the case of an operating lease, treat all payments under the arrangement as lease payments for the purposes of complying with the disclosure requirements of AASB 117, but: <ul style="list-style-type: none"> <li>(i) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements; and</li> <li>(ii) state that the disclosed payments also include payments for non-lease elements in the arrangement.</li> </ul> </li> </ul>	<p>Paragraph 15 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>
<b>Text in Interpretation 5</b> <b><i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i></b>	<b>Comments/Recommendations</b>
<p>11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.</p> <p>12 When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 10), it shall make the disclosures</p>	<p>Paragraphs 11, 12 and 13 have no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>

<p>required by paragraph 86 of AASB 137.</p> <p>13 When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph 85(c) of AASB 137.</p>	
<p><b>Text in Interpretation 14</b>  <b><i>AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i></b></p>	<p><b>Comments/Recommendations</b></p>
<p>10 In accordance with AASB 101 <i>Presentation of Financial Statements</i>, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the statement of financial position. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.</p>	<p>Paragraph 10 is in the nature of guidance relating to a disclosure retained in the RDR and, based on the reasoning in paragraph IN7 of this Appendix should be retained in the RDR.</p>
<p><b>Text in Interpretation 15</b>  <b><i>Agreements for the Construction of Real Estate</i></b></p>	<p><b>Comments/Recommendations</b></p>
<p>20 When an entity recognises revenue using the percentage of completion method for agreements that meet all the criteria in paragraph 14 of AASB 118 continuously as construction progresses (see paragraph 17 of the Interpretation), it shall disclose:</p> <ul style="list-style-type: none"> <li>(a) how it determines which agreements meet all the criteria in paragraph 14 of AASB 118 continuously as construction progresses;</li> <li>(b) the amount of revenue arising from such agreements in the period; and</li> <li>(c) the methods used to determine the stage of completion of agreements in progress.</li> </ul> <p>21 For the agreements described in paragraph 20 that are in progress at the reporting date, the entity shall also disclose:</p> <ul style="list-style-type: none"> <li>(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date; and</li> <li>(b) the amount of advances received.</li> </ul>	<p>Paragraphs 20 and 21 have no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>
<p><b>Text in Interpretation 17</b>  <b><i>Distributions of Non-cash Assets to Owners</i></b></p>	<p><b>Comments/Recommendations</b></p>
<p>16 An entity shall disclose the following information, if applicable:</p> <ul style="list-style-type: none"> <li>(a) the carrying amount of the dividend payable at the beginning and end of the period; and</li> <li>(b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph 13 as result of a change in the fair value of the assets to be distributed.</li> </ul> <p>17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity</p>	<p>Paragraphs 16 and 17 have no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>

<p>declares a dividend to distribute a non-cash asset, it shall disclose:</p> <ul style="list-style-type: none"> <li>(a) the nature of the asset to be distributed;</li> <li>(b) the carrying amount of the asset to be distributed as of the end of the reporting period; and</li> <li>(c) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by AASB 7 paragraph 27(a) and (b).</li> </ul>	
<p style="text-align: center;"><b>Text in Interpretation 127</b> <b><i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i></b></p>	<p style="text-align: center;"><b>Comments/Recommendations</b></p>
<p>10 All aspects of an arrangement that does not, in substance, involve a lease under AASB 117 shall be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted. An entity shall disclose the following in each period that an arrangement exists:</p> <ul style="list-style-type: none"> <li>(a) a description of the arrangement including: <ul style="list-style-type: none"> <li>(i) the underlying asset and any restrictions on its use;</li> <li>(ii) the life and other significant terms of the arrangement;</li> <li>(iii) the transactions that are linked together, including any options; and</li> </ul> </li> <li>(b) the accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the statement of comprehensive income in which it is included.</li> </ul> <p>11 The disclosures required in accordance with paragraph 10 of this Interpretation shall be provided individually for each arrangement or in aggregate for each class of arrangement. A class is a grouping of arrangements with underlying assets of a similar nature (e.g., power plants).</p>	<p>Paragraphs 10 and 11 have no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>
<p style="text-align: center;"><b>Text in Interpretation 129</b> <b><i>Service Concession Arrangements: Disclosures</i></b></p>	<p style="text-align: center;"><b>Comments/Recommendations</b></p>
<p>6 All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. An operator and a grantor shall disclose the following in each period:</p> <ul style="list-style-type: none"> <li>(a) a description of the arrangement;</li> <li>(b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g. the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);</li> <li>(c) the nature and extent (e.g. quantity, time period or amount as appropriate) of: <ul style="list-style-type: none"> <li>(i) rights to use specified assets;</li> <li>(ii) obligations to provide or rights to expect provision of services;</li> <li>(iii) obligations to acquire or build items of property, plant and equipment;</li> </ul> </li> </ul>	<p>Paragraphs 6 and 6A have no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>

<ul style="list-style-type: none"> <li>(iv) obligations to deliver or rights to receive specified assets at the end of the concession period;</li> <li>(v) renewal and termination options; and</li> <li>(vi) other rights and obligations (e.g. major overhauls);</li> <li>(d) changes in the arrangement occurring during the period; and</li> <li>(e) how the service arrangement has been classified.</li> </ul> <p>6A An operator shall disclose the amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.</p>	
<p align="center"><b>Text in Interpretation 1019</b> <b><i>The Superannuation Contributions Surcharge</i></b></p>	<p align="center"><b>Comments/Recommendations</b></p>
<p>10 The financial statements shall disclose:</p> <ul style="list-style-type: none"> <li>(a) the accounting policy adopted for the recognition of the liability for the superannuation contributions surcharge;</li> <li>(b) the amount of the superannuation contributions surcharge recognised as an expense during the reporting period;</li> <li>(c) the amount of the liability for the superannuation contributions surcharge recognised as at the end of the reporting period; and</li> <li>(d) whether any unrecognised liability for the superannuation contributions surcharge exists as at the end of the reporting period, stating the reasons for not recognising the liability.</li> </ul>	<p>Paragraph 10 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>
<p align="center"><b>Text in Interpretation 1047</b> <b><i>Professional Indemnity Claims Liabilities in Medical Defence Organisations</i></b></p>	<p align="center"><b>Comments/Recommendations</b></p>
<p>9 The following information shall be disclosed in relation to the determination of the liability for outstanding claims:</p> <ul style="list-style-type: none"> <li>(a) the accounting policies and methods adopted, including the basis of measurement and key assumptions applied; and</li> <li>(b) information about the nature and extent of the underlying indemnity arrangements, including significant terms and conditions that may affect the amount, timing and uncertainty of future cash flows.</li> </ul>	<p>Paragraph 9 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>
<p align="center"><b>Text in Interpretation 1052</b> <b><i>Tax Consolidation Accounting</i></b></p>	<p align="center"><b>Comments/Recommendations</b></p>
<p>16 The following information shall be disclosed separately by a head entity and by a subsidiary in a tax-consolidated group:</p> <ul style="list-style-type: none"> <li>(a) the relevance of the tax consolidation system to the entity, including the part of the reporting period for which it applies to the entity where it is not</li> </ul>	<p>Paragraph 16 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this of Appendix, should be excluded from the RDR.</p>

<p>applicable for the whole of the reporting period, and the name of the head entity;</p> <p>(b) the method adopted for measuring the current and deferred tax amounts;</p> <p>(c) information about the nature of any tax funding arrangement and any tax sharing agreement, including significant terms and conditions that may affect the amount, timing and uncertainty of future cash flows; and</p> <p>(d) the net amount recognised for the period as tax consolidation contributions by (or distributions to) equity.</p>	
---	--

### 3. Interpretations: Text of Proposed Disclosures

The following are the disclosure requirements of Interpretations, showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

#### Disclosures

##### **Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities***

- 6(d) AASB 101 requires disclosure in the statement of comprehensive income of each component of other comprehensive income or expense. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

##### **Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments***

- 13 When a change in the redemption prohibition leads to a transfer between financial liabilities and equity, the entity shall disclose separately the amount, timing and reason for the transfer.

##### **Interpretation 4 *Determining whether an Arrangement contains a Lease***

- 15 If a purchaser concludes that it is impracticable to separate the payments reliably, it shall:
- (a) in the case of a finance lease, recognise an asset and a liability at an amount equal to the fair value of the underlying asset that was identified in paragraphs 7 and 8 as the subject of the lease. Subsequently the liability shall be reduced as payments are made and an imputed finance charge on the liability recognised using the purchaser's incremental borrowing rate of interest or
  - (b) in the case of an operating lease, treat all payments under the arrangement as lease payments for the purposes of complying with the disclosure requirements of AASB 117, but:
    - (i) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements; and
    - (ii) state that the disclosed payments also include payments for non-lease elements in the arrangement.

##### **Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds***

- 11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.
- 12 When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 10), it shall make the disclosures required by paragraph 86 of AASB 137.
- 13 When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph 85(c) of AASB 137.

**Interpretation 14 AASB 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***

- 10 In accordance with AASB 101 *Presentation of Financial Statements*, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the statement of financial position. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

**Interpretation 15 *Agreements for the Construction of Real Estate***

- 20 When an entity recognises revenue using the percentage of completion method for agreements that meet all the criteria in paragraph 14 of AASB 118 continuously as construction progresses (see paragraph 17 of the Interpretation), it shall disclose:
- (a) how it determines which agreements meet all the criteria in paragraph 14 of AASB 118 continuously as construction progresses;
  - (b) the amount of revenue arising from such agreements in the period; and
  - (c) the methods used to determine the stage of completion of agreements in progress.
- 21 For the agreements described in paragraph 20 that are in progress at the reporting date, the entity shall also disclose:
- (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date; and
  - (b) the amount of advances received.

**Interpretation 17 *Distributions of Non-cash Assets to Owners***

- 16 An entity shall disclose the following information, if applicable:
- (a) the carrying amount of the dividend payable at the beginning and end of the period; and
  - (b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph 13 as result of a change in the fair value of the assets to be distributed.
- 17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:
- (a) the nature of the asset to be distributed;
  - (b) the carrying amount of the asset to be distributed as of the end of the reporting period; and
  - (c) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by AASB 7 paragraph 27(a) and (b).

**Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease***

- 10 All aspects of an arrangement that does not, in substance, involve a lease under AASB 117 shall be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted. An entity shall disclose the following in each period that an arrangement exists:
- (a) a description of the arrangement including:



- (i) the underlying asset and any restrictions on its use;
- (ii) the life and other significant terms of the arrangement;
- (iii) the transactions that are linked together, including any options; and
- (b) the accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the statement of comprehensive income in which it is included.

11 The disclosures required in accordance with paragraph 10 of this Interpretation shall be provided individually for each arrangement or in aggregate for each class of arrangement. A class is a grouping of arrangements with underlying assets of a similar nature (e.g., power plants).

#### **Interpretation 129 *Service Concession Arrangements: Disclosures***

- 6 All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. An operator and a grantor shall disclose the following in each period:
- (a) a description of the arrangement;
  - (b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g. the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);
  - (c) the nature and extent (e.g. quantity, time period or amount as appropriate) of:
    - (i) rights to use specified assets;
    - (ii) obligations to provide or rights to expect provision of services;
    - (iii) obligations to acquire or build items of property, plant and equipment;
    - (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;
    - (v) renewal and termination options; and
    - (vi) other rights and obligations (e.g. major overhauls);
  - (d) changes in the arrangement occurring during the period; and
  - (e) how the service arrangement has been classified.
- 6A An operator shall disclose the amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.

#### **Interpretation 1019 *The Superannuation Contributions Surcharge***

- 10 The financial statements shall disclose:
- (a) the accounting policy adopted for the recognition of the liability for the superannuation contributions surcharge;
  - (b) the amount of the superannuation contributions surcharge recognised as an expense during the reporting period;
  - (c) the amount of the liability for the superannuation contributions surcharge recognised as at the end of the reporting period; and
  - (d) whether any unrecognised liability for the superannuation contributions surcharge exists as at the end of the reporting period, stating the reasons for not recognising the liability.

#### **Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations***

- 9 The following information shall be disclosed in relation to the determination of the liability for outstanding claims:

- (a) the accounting policies and methods adopted, including the basis of measurement and key assumptions applied; and
- (b) information about the nature and extent of the underlying indemnity arrangements, including significant terms and conditions that may affect the amount, timing and uncertainty of future cash flows.

**Interpretation 1052 *Tax Consolidation Accounting***

- 16 The following information shall be disclosed separately by a head entity and by a subsidiary in a tax-consolidated group:
- (a) the relevance of the tax consolidation system to the entity, including the part of the reporting period for which it applies to the entity where it is not applicable for the whole of the reporting period, and the name of the head entity;
  - (b) the method adopted for measuring the current and deferred tax amounts;
  - (c) information about the nature of any tax funding arrangement and any tax sharing agreement, including significant terms and conditions that may affect the amount, timing and uncertainty of future cash flows; and
  - (d) the net amount recognised for the period as tax consolidation contributions by (or distributions to) equity.