TREASURY ANALYSIS –
INTERNATIONAL ACCOUNTING STANDARDS

AASB 101 "Presentation of Financial Statements" replaces AASB 1018 "Statement of Financial Performance"; AAS 36 / AASB 1040 "Statement of Financial Position", AAS 37 / AASB 1034 "Financial Report Presentation and Disclosures" and parts of AAS 6 / AASB 1001 "Accounting Policies"

Major impacts of changes

- Revised formats for Income Statement and Balance Sheet, including:
  - Prohibits the presentation of extraordinary items;
  - Netting of gains and losses on disposal of non-current assets;
  - Current / non-current liability ignores after balance date events.
- Separate Statement of Changes in Equity.
- Additional disclosures, including:
  - Management's judgements in applying the entity's accounting policies;
  - Management's judgements regarding estimation uncertainty;
  - An explicit and unreserved statement of compliance with IFRS.

Key features of Standard

- AASB 101 substantially replicates the requirements of AASB 1018, AAS 36 / AASB 1040, AAS 37 / AASB 1034 and parts of AAS 6 / AASB 1001, except for the areas discussed under "main differences" below.

Main differences compared to previous Australian requirements

General requirements

- *Fair presentation* - Application of Australian Accounting Standards (with additional disclosure where necessary), is presumed to result in a financial report that achieves a fair presentation (para 13). However, in extremely rare circumstances where management concludes that compliance with a requirement in an Australian Accounting Standard would be so misleading that it would conflict with the objective of financial reports, AASB 101 requires specific disclosures to be made (para 21). Previously, AASB 1001 did not contemplate a situation where the application of the Accounting Standards would not result in a fair presentation.

Income Statement

- *Income Statement presentation* - The AASB 101 format of the Income Statement is not as restrictive as AASB 1018 (para 81-83). AASB 1018 included restrictions on the presentation of additional sub-totals that are not included in AASB 101. For example, AASB 1018 prevented the presentation of a sub-total referring to profit or loss presented immediately before individually significant revenues or expenses. There is no equivalent restriction in AASB 101. However, AASB 101 encourages an entity to adopt the income statement format presented in the Appendix, unless an alternative income statement format is more relevant to users (para Aus 83.1).
- *Extraordinary items* – AASB 101 prohibits an entity from presenting any extraordinary items, either on the face of the income statement or in the notes (para 85). Although, AASB 1018 permitted such disclosures, its definition was such that an extraordinary item occurred only in extremely rare circumstances.
- *Offsetting gains and losses on disposal of non-current assets* – AASB 101 allows netting of gains and losses on disposal of non-current assets (para 34), consistent with its exclusion from AASB 118 "Revenue". This is consistent with AAS 29 para 10.3, but inconsistent with the previous AASB 1004 which treated the gross proceeds from disposal of assets as revenue and the carrying amount of disposed assets as an expense.

Statement of Changes in Equity

- *New primary financial statement* - AASB 101 requires the preparation of a separate Income Statement and Statement of Changes in Equity (para 96). In contrast, AASB 1018 combined these two statements into a Statement of Financial Performance. AASB 101 permits the presentation of transactions with owners either on the face of the Statement of Changes in Equity or in the notes (para 97). However, AASB 1018 required only the non-owner transactions to be presented on the face of the Statement of Financial Performance.
- *Recycling* – AASB 101 permits revenues / expenses to be reversed out of equity and recognised in profit or loss of a subsequent reporting period, in certain circumstances (e.g. cash flow hedges). This was prohibited in AASB 1018.

Balance Sheet

- *Balance Sheet presentation*:
  - *Mixed presentation* – A mixed presentation format is permitted in certain circumstances (e.g. when an entity has diverse operations), comprising *both* a current / non-current classification *and* a liquidity presentation (para 55). AASB 1040 did not allow a mixed presentation format.
  - *Less restrictive format* - The AASB 101 format of the balance sheet (para 68-70) is not as restrictive as AASB 1040 was. However, AASB 101 encourages an entity to adopt one of the balance sheet formats presented in the Appendix, unless an alternative balance sheet format is more relevant to users. Disclosures on the face of the Balance sheet are similar but different wording is used on some occasions compared to AASB 1040.
- *Classification as a current / non-current liability*:
  - *Criteria* – AASB 101 includes additional criteria in the definition of a "current" liability (para 60). The Standard requires a liability to be classified as "current" when it is held primarily for the purposes of being traded (e.g. in accordance with AASB 139) or where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
  - *After balance date events ignored:*
    - *Agreement to refinance or reschedule payments* - classification as a current liability is required when they are due to be settled within 12 months after the reporting date, even if the original term exceeded 12 months and an agreement to refinance or to reschedule payments on a long term basis is completed after the reporting date and before the financial report is authorised for issue (para 63). In contrast, AASB 1040 required classification as a non-current liability in these circumstances.
    - *Where a long term loan covenant is breached* – requires a liability to be classified as "current" where a covenant is breached on or before the reporting date even if, after the report date, and before the financial report is authorised for issue, the lender has agreed not to demand payment (para 65). In contrast, AASB 1040 required a liability to be classified as non-current if the lender had agreed, prior to the time of completion of the financial report, not to demand repayment.

Additional note disclosures

- *Compliance with International Financial Reporting Standards* (IFRSs) – AASB 101 requires an entity whose financial report complies with IFRSs to make an explicit and unreserved statement of such compliance in the notes (para 14). In certain circumstances, for-profit and not-for-profit entities may not be able to make this statement (para Aus14.1-Aus14.3).
- *Management's judgements in applying accounting policies* – AASB 101 requires an entity to disclose management's judgements, *apart from those involving estimations* (see para 116), in applying the entity's accounting policies that have the most significant effect on the amounts recognised (para 113). Paragraph 114 provides examples of these types of judgements. For example, management makes judgements in determining whether financial assets are held-to-maturity investments (para 114(a)).

- *Management's judgements regarding estimation uncertainty* –
  - Disclosure of key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period (para 116). In respect of those assets and liabilities, the notes must include details of the nature and carrying amount as at the reporting date (para 116(a) and (b)).
  - Examples of types of disclosures are provided in para 120, and include the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including reasons for sensitivity. Disclosures are not required if assets and liabilities are measured at fair value based on recently observed market prices, as these changes do not arise from assumptions or other sources of estimation uncertainty. However, disclosures are required, in the absence of recently observed market prices, as future oriented estimates are necessary, for example, to measure the recoverable amount of classes of property, plant and equipment. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used.

Impact on the public sector

- *Terminology* – AASB 101 uses terminology suitable for profit oriented entities. But, it provides that entities with not-for-profit activities may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves (para 5).
- *GFS / GAAP convergence and Comprehensive income* – As part of the GFS / GAAP convergence project, the AASB is considering the adoption of a single comprehensive income statement – i.e. a statement that reports all recognised income and expenses, which equals the change in equity from non-owner sources. This will initially impact the financial reports for the Total State Sector, General Government Sector (GGS) and GGS agencies. The application of the GFS/GAAP project to Public Trading Enterprises will be considered at a later date. The adoption of a comprehensive income approach therefore may replace the requirements in AASB 101 regarding the Income Statement and Statement of Changes in Equity.
- *Compliance with International Financial Reporting Standards* (IFRS) – Not-for-profit entities may not be able to make an explicit and unreserved statement of compliance with IFRS (para Aus 14.3). This is because the AASB has included additional material in the Australian Accounting Standards that vary the IFRS requirements for not-for-profit entities which in certain instances may conflict with the IFRS. However, while a not-for-profit entity may not comply with all IFRS requirements and may not be able to make the AASB 101 statement of compliance with IFRS, it should still be able to make an explicit and unreserved statement of compliance with Australian Accounting Standards and therefore be able to utilise the first time adoption exemptions in AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards".

Policy and Implementation issues (see attached)

- *Review of Income Statement presentation* - Agencies will need to adjust their formats of their Income Statement to comply with AASB 101, subject to further developments arising from the GFS/GAAP project. This includes omitting any extraordinary items and offsetting gains and losses on disposal of non-current assets.
- *Include new Statement of Changes in Equity* – subject to GFS/GAAP project.
- *Review of Balance Sheet presentation* – Agencies will need to adjust the format of the Balance sheet to comply with AASB 101. This includes reviewing the current / non-current liability classification on first time adoption, particularly where there is a decision to refinance or reschedule payments or where a covenant is breached after the reporting date but before the time of completion of the financial report.

- *Statement of compliance with IFRS* – Agencies will need to determine whether they are able to make the statement of compliance with IFRS (refer ‘impact on the public sector’ above and paras Aus 14.1-Aus14.3). For example, a for-profit *parent* entity may not be able to make this statement where it has used the disclosure relief provided in AASB 132 “Financial Instruments: Disclosure and Presentation”. But, *both* for-profit *and* not-for-profit entities will be able to make an explicit and unreserved statement of compliance with Australian Accounting Standards in accordance with AASB 1.
- *Other disclosures* – Agencies will need to include new disclosures such as management’s judgements in applying accounting policies and regarding estimation uncertainty.

This summary has been written in general terms and is intended for general reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

ATTACHMENT

SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES
AASB 101 "PRESENTATION OF FINANCIAL STATEMENTS"
TREASURY & AGENCIES

	Issue	Treasury Policy		System/ Implementation Issue	Mandate Options for GFS Harmonisation	Budget / Total State Sector Issues
		Mandate Option	Additional Guidance			
1	Review Income Statement presentation, including: • omission of extraordinary items • offsetting gains and losses on disposal of non-current assets		✓ Review fixed format in the FRC	✓	✓ Depends on outcome of GFS/GAAP project	✓
4	New Statement of Changes in Equity		✓ Review fixed format in the FRC	✓	✓ Depends on outcome of GFS/GAAP project	✓
5	Review Balance Sheet presentation, including: • review of current / non current liability classification		✓ Review fixed format in the FRC	✓		✓
7	Disclosure of compliance with IFRS			✓		✓
8	Other additional disclosures, including: • Management's judgements in applying accounting policies • Management's judgements regarding estimation uncertainty		✓	✓		✓