ACCOUNTING STANDARD **AASB 134**

July 2004

Interim Financial Reporting

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 134 *Interim Financial Reporting* is set out in paragraphs Aus1.1 – 45. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 134 is to be read in the context of other Australian Accounting Standards including AASB 1048 *Interpretation and Application of Standards*, which identifies the UIG Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Reasons for Issuing AASB 134

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

(a) International Financial Reporting Standards;

(b) International Accounting Standards; and

(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

(a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and

(b) UIG Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards.*

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

First-time Application and Comparatives

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

Main Requirements

The Standard:

(a) prescribes the minimum content of an interim financial report as comprising a condensed balance sheet, a condensed income statement, a condensed statement of changes in equity, a condensed cash flow statement and specific disclosures;

(b) 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;

(c) requires interim financial reports to be prepared using the same accounting policies as applied in the entity's annual financial report, or, in the case of a change in accounting policy, the accounting policies to be applied in the entity's next annual financial report;

(d) requires that the frequency of an entity's reporting should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes are required to be made on a an annual reporting period-to-date basis;

(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.

Differences between this Standard and AASB 1029

There are no significant differences between this Standard and the AASB Standard that it supersedes, AASB 1029 *Interim Financial Reporting*. A detailed description of the differences between this Standard and AASB 1029 accompanies this Standard under the heading "Differences between AASB 134 and AASB 1029".

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 134 and IAS 34

AASB 134 is equivalent to IAS 34 *Interim Financial Reporting* issued by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB Standard) are identified with the prefix "Aus", followed by the number of the relevant IASB paragraph and decimal numbering.

Compliance with IAS 34

Entities that comply with AASB 134 will simultaneously be in compliance with IAS 34.

AASB 134 and IPSASs

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

There is no specific IPSAS dealing with interim financial reporting at present.

ACCOUNTING STANDARD AASB 134

The Australian Accounting Standards Board makes Accounting Standard AASB 134 *Interim Financial Reporting* under section 334 of the *Corporations Act 2001*.

D.G. Boymal
Dated 15 July 2004 Chair – AASB

ACCOUNTING STANDARD AASB 134

INTERIM FINANCIAL REPORTING

Objective

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial reports for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

Application

Aus1.1 This Standard applies to:

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

(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.

Aus1.2 Under the Corporations Act, 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.

Aus1.3 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.

Aus1.4 This Standard applies to *interim periods* beginning on or after 1 January 2005.

Aus1.5 This Standard shall not be applied to interim periods beginning before 1 January 2005.

Aus1.6 The requirements specified in this Standard apply to the interim financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Aus1.7 When applicable, this Standard supersedes AASB 1029 *Interim Financial Reporting* as notified in the *Commonwealth of Australia Gazette* No S 534, 5 October 2000.

Aus1.8 AASB 1029 remains applicable until superseded by this Standard.

Aus1.9 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Scope

1. 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 in accordance with Australian Accounting Standards.

2. Each financial report, annual or interim, is evaluated on its own for conformity to Australian Accounting Standards. The fact that an entity may not have provided interim financial reports during a particular annual reporting period or may have provided interim financial reports that do not comply with this Standard does not prevent the entity's annual financial reports from conforming to Australian Accounting Standards if they otherwise do so.

3. If an entity's interim financial report is described as complying with Australian Accounting Standards, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.

Definitions

4. The following terms are used in this Standard with the meanings specified.

> ***Interim financial report*** **means a financial report containing either a complete financial report (as described in AASB 101 *Presentation of Financial Statements*) or a condensed financial report (as described in this Standard) for an interim period.**
>
> ***Interim period*** **is a reporting period shorter than a full annual reporting period.**

Content of an Interim Financial Report

5. AASB 101 defines a financial report as including the following components:

   (a) a balance sheet;

   (b) an income statement;

   (c) a statement of changes in equity showing either:

      (i) all changes in equity, or

      (ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;

(d) a cash flow statement; and

(e) notes, comprising a summary of significant accounting policies and other explanatory notes.

6. In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial report. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest annual financial report. Accordingly, it focuses on new activities, events, and circumstances and, except for comparatives, does not duplicate information previously reported.

7. Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete financial report (as described in AASB 101) as its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial reports more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement guidance in this Standard applies also to complete financial reports presented as interim financial reports for an interim period, and such reports would include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 16) as well as those required by other Australian Accounting Standards.

Minimum Components of an Interim Financial Report

8. An interim financial report shall include, at a minimum, the following components:

(a) a condensed balance sheet;

(b) a condensed income statement;

(c) a condensed statement of changes in equity showing either:

(i) all changes in equity, or

(ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;

(d) a condensed cash flow statement; and

(e) selected explanatory notes.

Form and Content of Interim Financial Reports

9. If an entity publishes a complete financial report as its interim financial report, the form and content of that report shall conform to the requirements of AASB 101 for a financial report.

10. If an entity publishes a condensed financial report as its interim financial report, that condensed report shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial report and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial report misleading.

11. Basic and diluted earnings per share shall be presented on the face of an income statement, complete or condensed, for an interim period.

12. AASB 101 provides guidance on the structure of financial reports. The Appendix to AASB 101 illustrates ways in which the balance sheet, income statement and statement of changes in equity may be presented.

13. AASB 101 requires a statement of changes in equity to be presented as a separate component of an entity's financial report, and permits information about changes in equity arising from transactions with equity holders acting in their capacity as equity holders (including distributions to equity holders) to be shown either on the face of the statement or in the notes. An entity follows the same format in its interim statement of changes in equity as it did in its most recent annual statement.

14. [Deleted by the AASB]

Aus14.1 A parent that prepares an interim financial report shall include consolidated financial statements in its interim financial report.

Aus14.2 If an entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, this Standard neither requires nor prohibits the inclusion of the parent's separate financial statements in the entity's interim financial report. However, interim financial reports required to be prepared under the Corporations Act are required to include the parent financial statements.

Selected Explanatory Notes

15. A user of an entity's interim financial report will also have access to the most recent annual financial report of that entity. It is unnecessary, therefore, 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 report. At an interim date, an explanation 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 is more useful.

16. An entity shall include the following information, as a minimum, in the notes in the interim financial report, if material and if not disclosed elsewhere in the interim financial report. The information shall normally be reported on an annual reporting period-to-date basis. However, the entity shall also disclose any events or transactions that are material to an understanding of the current interim period:

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

(b) explanatory comments about the seasonality or cyclicality of interim operations;

(c) the nature and amount of items affecting assets, liabilities, equity, profit or loss, or cash flows that are unusual because of their nature, size, or incidence;

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

(e) issuances, repurchases, and repayments of debt and equity securities;

(f) dividends paid (aggregate or per share) separately for ordinary shares and other shares;

(g) segment revenue and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting (disclosure of segment data is

required in an entity's interim financial report only if AASB 114 *Segment Reporting* requires that entity to disclose segment data in its annual financial report);

(h) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

(i) the effect of changes in the composition of the entity during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required to be disclosed under paragraphs 66-73 of AASB 3 *Business Combinations*; and

(j) changes in contingent liabilities or contingent assets since the last annual reporting date.

Aus16.1 In relation to paragraph 16(h), an indication, where possible, of the financial effect of each event shall be disclosed.

Aus16.2 The entity shall disclose in the same manner that disclosures in paragraph 16 are made:

(a) the amount in aggregate or per share of dividends that were:

(i) either recognised as distributions to equity holders; or

(ii) proposed or declared before the interim financial report was authorised for issue but not recognised as a distribution to equity holders; and

(b) the amount of any cumulative preference dividends not recognised.

Aus16.3 The interim financial report shall prominently display an explicit statement that the interim financial report is to be read in conjunction with the most recent annual financial report.

Aus16.4 Where the entity includes condensed financial statements in its interim financial report, those condensed statements shall be clearly labelled as such. Where the interim financial

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

17. Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Other Australian Accounting Standards provide guidance regarding disclosures for many of these items:

    (a) the 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) corrections of prior period errors;

    (h) [deleted by the IASB];

    (i) any loan default or breach of a loan agreement that has not been remedied on or before the reporting date; and

    (j) related party transactions.

18. Other Australian Accounting Standards specify disclosures that should be made in a financial report. In that context, financial report means a complete financial report of the type normally included in an annual financial report and sometimes included in other reports. Except as required by paragraph 16(i), the disclosures required by those other Australian Accounting Standards are not required if an entity's interim financial report includes only condensed financial statements and selected explanatory notes rather than a complete financial report.

Aus18.1 Voluntary disclosures in addition to the minimum required by this Standard, if dealt with by other applicable Australian Accounting Standards, shall be made in a manner consistent with those Standards.

Disclosure of Compliance with Australian Accounting Standards

19. If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with Australian Accounting Standards unless it complies with all of the requirements of each applicable Australian Accounting Standard.

Periods for which Interim Financial Reports are Required to be Presented

20. Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

(a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding annual reporting period;

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

(c) statement showing changes in equity cumulatively for the current annual reporting period to date, with a comparative statement for the comparable annual reporting period-to-date period of the immediately preceding annual reporting period; and

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

21. For an entity whose business is 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 consider reporting such information in addition to the information called for in the preceding paragraph.

Aus21.1 Comparative interim periods (current or annual reporting period-to-date) refer to the corresponding calendar periods.

22. Appendix A illustrates the periods required to be presented by an entity that reports half-yearly and an entity that reports quarterly.

Materiality

23. In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

24. In deciding whether an item is material, its nature and amount usually need to be evaluated together. AASB 1031 *Materiality* provides guidance on the role of materiality in making judgements in the preparation and presentation of financial reports. AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* define an item as material if its omission or misstatement could influence the economic decisions of users of the financial report. AASB 101 requires separate disclosure of material items, including (for example) discontinued operations, and AASB 108 requires disclosure of changes in accounting estimates, errors and changes in accounting policies.

25. While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

Disclosure in Annual Financial Reports

26. If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the annual reporting period but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note in the annual financial report for that annual reporting period.

27. AASB 108 requires disclosure of the nature and (if practicable) the amount of a change in estimate that either has a material effect in the

current period or is expected to have a material effect in subsequent periods. Paragraph 16(d) of this Standard requires similar disclosure in an interim financial report. Examples include changes in estimate in the final interim period relating to inventory write-downs, restructurings, or impairment losses that were reported in an earlier interim period of the annual reporting period. The disclosure required by the preceding paragraph is consistent with AASB 108. Except for information required by paragraph Aus27.1, an entity is not required to include additional interim period financial information in its annual financial report.

Aus27.1 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 shall be disclosed in the notes in the annual financial report for that annual reporting period.

Aus27.2 Paragraph 16(a) prescribes disclosures of a change in accounting policy in an interim period. In the absence of the requirement in paragraph Aus27.1, 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 AASB 108 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 Aus27.1 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 Aus27.1 apply where there is a change in accounting policy between the first half-year reporting date and the annual reporting date.

Recognition and Measurement

Same Accounting Policies as Annual

28. **An entity shall apply the same accounting policies in its interim financial report as are applied in its annual financial report, except for accounting policy changes made after the date of the most recent annual financial report that are to be reflected in the next annual financial report. However, the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on an annual reporting period-to-date basis.**

29. Requiring that an entity apply the same accounting policies in its interim financial report as in its annual report may seem to suggest that interim period measurements are made as if each interim period stands alone as an independent reporting period. However, by providing that the frequency of an entity's reporting should not affect the measurement of its annual results, paragraph 28 acknowledges that an interim period is a part of a larger annual reporting period. Annual reporting period-to-date measurements may involve changes in estimates of amounts reported in prior interim periods of the current annual reporting period. But the principles for recognising assets, liabilities, income and expenses for interim periods are the same as in annual financial reports.

30. To illustrate:

    (a) the principles for recognising and measuring losses from inventory write-downs, restructurings, or impairments in an interim period are the same as those that an entity would follow if it prepared only an annual financial report. However, if such items are recognised and measured in one interim period and the estimate changes in a subsequent interim period of that annual reporting period, the original estimate is changed in the subsequent interim period either by accrual of an additional amount of loss or by reversal of the previously recognised amount;

    (b) a cost that does not meet the definition of an asset at the end of an interim period is not deferred on the balance sheet either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within an annual reporting period; and

(c) income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full annual reporting period. 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 income tax rate changes.

31. Under the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*), recognition is the "process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition". The definitions of assets, liabilities, income and expenses are fundamental to recognition, both at annual and interim financial reporting dates.

32. For assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's annual reporting period. Costs that, by their nature, would not qualify as assets at the end of an annual reporting period would not qualify at interim dates either. Similarly, a liability at an interim reporting date must represent an existing obligation at that date, just as it must at an annual reporting date.

33. An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. The *Framework* says that "expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.... [The] *Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities".

34. In measuring the assets, liabilities, income, expenses and cash flows reported in its financial report, 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.

35. An entity that reports half-yearly uses information available by mid-year or shortly thereafter in making the measurements in its financial report for the first six-month period and information available by the end of the annual reporting period or shortly thereafter for the twelve-month period. The twelve-month measurements will reflect possible changes in estimates of amounts reported for the first six-month period. The amounts reported in the interim financial report for the first six-

month period are not retrospectively adjusted. Paragraphs 16(d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.

36. An entity that reports more frequently than half-yearly measures income and expenses on an annual reporting period-to-date basis for each interim period using information available when each financial report is being prepared. Amounts of income and expenses reported in the current interim period will reflect any changes in estimates of amounts reported in prior interim periods of the annual reporting period. The amounts reported in prior interim periods are not retrospectively adjusted. Paragraphs 16(d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.

Revenues Received Seasonally, Cyclically, or Occasionally

37. Revenues that are received seasonally, cyclically, or occasionally within an annual reporting period shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's annual reporting period.

38. Examples 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

39. Costs that are incurred unevenly during an entity's annual reporting period shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of each annual reporting period.

Applying the Recognition and Measurement Principles

40. Appendix B provides examples of applying the general recognition and measurement principles set out in paragraphs 28-39.

Use of Estimates

41. The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting

information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

42. Appendix C provides examples of the use of estimates in interim periods.

Restatement of Previously Reported Interim Periods

43. A change in accounting policy, other than one for which the transition is specified by a new Australian Accounting Standard, shall be reflected by:

(a) restating the financial statements of prior interim periods of the current annual reporting period and the comparable interim periods of any prior annual reporting periods that will be restated in the annual financial statements in accordance with AASB 108; or

(b) when it is impracticable to determine the cumulative effect at the beginning of the annual reporting period of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current annual reporting period, and comparable interim periods of prior annual reporting periods to apply the new accounting policy prospectively from the earliest date practicable.

44. One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire annual reporting period. Under AASB 108, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior annual reporting periods is impracticable to determine, then under AASB 108 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 is to require that within the current annual reporting period any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the annual reporting period.

45. To allow accounting changes to be reflected as of an interim date within the annual reporting period would allow two differing accounting policies to 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 complicated analysis and understandability of interim period information.

Effective Date of IAS 34

46. [Deleted by AASB]

APPENDIX A

Illustration of Periods Required to Be Presented

This appendix, which accompanies, but is not part of, AASB 134, provides examples to illustrate application of the principle in paragraph 20.

Entity Publishes Interim Financial Reports Half-Yearly

A1. The entity's annual reporting period ends 31 December (calendar year). The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report as of 30 June 2001:

Balance Sheet:		
At	30 June 2001	31 December 2000
Income Statement:		
6 months ending	30 June 2001	30 June 2000
Cash Flow Statement:		
6 months ending	30 June 2001	30 June 2000
Statement of Changes in Equity:		
6 months ending	30 June 2001	30 June 2000

Entity Publishes Interim Financial Reports Quarterly

A2. The entity's annual reporting period ends 31 December (calendar year). The entity will present the following financial statements (condensed or complete) in its quarterly interim financial report as of 30 June 2001:

Balance Sheet:		
At	30 June 2001	31 December 2000
Income Statement:		
6 months ending	30 June 2001	30 June 2000
3 months ending	30 June 2001	30 June 2000
Cash Flow Statement:		
6 months ending	30 June 2001	30 June 2000
Statement of Changes in Equity:		
6 months ending	30 June 2001	30 June 2000

APPENDIX B

Examples of Applying the Recognition and Measurement Principles

This appendix, which accompanies, but is not part of, AASB 134, provides examples of applying the general recognition and measurement principles set out in paragraphs 28-39.

Employer Payroll Taxes and Insurance Contributions

B1. If employer payroll taxes or contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised in interim periods using an estimated average annual effective payroll tax or contribution rate, even though a large portion of the payments may be made early in the annual reporting period. A common example is an employer payroll tax or insurance contribution that is imposed up to a certain maximum level of earnings per employee. For higher income employees, the maximum income is reached before the end of each annual reporting period, and the employer makes no further payments through to the end of each annual reporting period.

Major Planned Periodic Maintenance or Overhaul

B2. The cost of a 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 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.

Provisions

B3. 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 loss or gain recognised in the income statement, if the entity's best estimate of the amount of the obligation changes.

B4. This Standard requires that an entity apply the same criteria for recognising and measuring a provision at an interim date as it would at the end of its annual reporting period. The existence or non-existence of an obligation to transfer benefits is not a function of the length of the reporting period. It is a question of fact.

Year-End Bonuses

B5. The nature of year-end bonuses varies widely. Some are earned simply by continued employment during a time period. Some bonuses are earned based on a monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent.

B6. A bonus is anticipated for interim reporting purposes if, and only if, (a) the bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments, and (b) a reliable estimate of the obligation can be made. AASB 119 *Employee Benefits* provides guidance.

Contingent Lease Payments

B7. Contingent lease payments can be an example of a legal or constructive obligation that are recognised as a liability. If a lease provides for contingent payments based on the lessee achieving a certain level of annual sales, an obligation can arise 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.

Intangible Assets

B8. An entity will apply the definition and recognition criteria for an intangible asset in the same way in an interim period as in an annual 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. 'Deferring' costs as assets in an interim balance sheet in the hope that the recognition criteria will be met later in the annual reporting period is not justified.

Pensions

B9. Pension cost for an interim period is calculated on an annual reporting period-to-date basis by using the actuarially determined pension cost rate at the end of the prior annual reporting period, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

Vacations, Holidays, and Other Short-term Compensated Absences

B10. Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. AASB 119 *Employee Benefits* requires that an entity measure the expected cost of and obligation for accumulating compensated absences at the amount the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date. That principle is also applied at interim financial reporting dates. Conversely, an entity recognises no expense or liability for non-accumulating compensated absences at an interim reporting date, just as it recognises none at an annual reporting date.

Other Planned but Irregularly Occurring Costs

B11. An entity's budget may include certain costs expected to be incurred irregularly during the annual reporting period, such as charitable contributions and employee training costs. Those costs generally are discretionary even though they are planned and tend to recur from year to year. Recognising an obligation at an interim financial reporting date for such costs that have not yet been incurred generally is not consistent with the definition of a liability.

Measuring Interim Income Tax Expense

B12. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

B13. This is consistent with the basic concept set out in paragraph 28 that the same accounting recognition and measurement principles shall be applied in an interim financial report as are applied in annual financial report. Income taxes are assessed on an annual basis. Interim period income tax expense is calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate. That estimated average annual rate would reflect a blend of the progressive tax rate structure expected to be applicable to the full annual reporting period's earnings including enacted or substantively enacted changes in the income tax rates scheduled to take effect later in the annual reporting period. AASB 112 *Income Taxes* provides guidance on substantively enacted changes in tax rates. The estimated average annual income tax rate would be re-estimated on an annual reporting period-to-date basis, consistent with paragraph 28 of this Standard. Paragraph 16(d) requires disclosure of a significant change in estimate.

B14. To the extent practicable, a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. Similarly, if different income tax rates apply to different categories of 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 income. While 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.

B15. To illustrate the application of the foregoing principle, an entity reporting quarterly expects to earn 10,000 pre-tax each quarter and operates in a jurisdiction with a tax rate of 20 per cent on the first 20,000 of annual earnings and 30 per cent on all additional earnings. Actual earnings match expectations. The following table shows the amount of income tax expense that is reported in each quarter:

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

10,000 of tax is expected to be payable for the full annual reporting period on 40,000 of pre-tax income.

B16. As another illustration, an entity 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 income for the annual reporting period), and operates in a jurisdiction in which its estimated average annual income tax rate is expected to be 20 per cent. The following table shows the amount of income tax expense (income tax revenue) that is reported in each quarter:

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

Difference in Annual Reporting Period and Tax Year

B17. 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 weighted average estimated effective tax rates for each of the income tax years applied to the portion of pre-tax income earned in each of those income tax years.

B18. To illustrate, an entity's annual reporting period ends 30 June and it reports quarterly. Its taxable year ends 31 December. For the annual reporting period that begins 1 July, Year 1 and ends 30 June, Year 2, the entity earns 10,000 pre-tax each quarter. The estimated average annual 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 Credits

B19. Some tax jurisdictions give taxpayers credits against the tax payable based on amounts of capital expenditures, exports, research and development expenditures, or other bases. Anticipated tax benefits of this type for the annual reporting period are generally reflected in computing the estimated annual effective income tax rate, because those credits are granted and calculated on an annual basis under most tax laws and regulations. On the other hand, tax benefits that relate to a one-time event are recognised in computing income tax expense in that interim period, in the same way that special tax rates applicable to particular categories of income are not blended into a single effective annual tax rate. Moreover, in some jurisdictions tax benefits or credits, including those related to capital expenditures and levels of exports, while reported on the income tax return, are more similar to a government grant and are recognised in the interim period in which they arise.

Tax Loss and Tax Credit Carrybacks and Carryforwards

B20. The benefits of a tax loss carryback are reflected in the interim period in which the related tax loss occurs. AASB 112 provides that the "benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset". A corresponding reduction of tax expense or increase of tax income is also recognised.

B21. AASB 112 provides that "a deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised". AASB 112 provides criteria for assessing the probability of taxable profit against which the unused tax losses and credits 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 computation of the estimated average annual effective income tax rate.

B22. To illustrate, an entity that reports quarterly has an operating 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. Excluding the carryforward, the estimated average annual income tax rate is expected to be 40 per cent. 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

B23. 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 both 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 conditions in the *Framework* that an asset must be a resource controlled by the entity as a result of a past event and that a liability must be a present obligation whose settlement is expected to result in an outflow of resources.

Depreciation and Amortisation

B24. Depreciation and amortisation for an interim period is based only on assets owned during that interim period. It does not take into account asset acquisitions or dispositions planned for later in the annual reporting period.

Inventories

B25. Inventories are measured for interim financial reporting by the same principles as at the end of an annual reporting period. AASB 102 *Inventories* establishes standards for recognising and measuring inventories. Inventories pose particular problems at any financial reporting date because of the need to determine inventory quantities, costs, and net realisable values. Nonetheless, the same measurement principles are applied for interim inventories. To save cost and time, entities often use estimates to measure inventories at interim dates to a greater extent than at annual reporting dates. Following are examples of how to apply the net realisable value test at an interim date and how to treat manufacturing variances at interim dates.

Net Realisable Value of Inventories

B26. The net realisable value of inventories is determined by reference to selling prices and related costs to complete and dispose at interim dates. An entity will reverse a write-down to net realisable value in a subsequent interim period only if it would be appropriate to do so at the end of each annual reporting period.

B27. [Deleted by the IASB]

Interim Period Manufacturing Cost Variances

B28. Price, efficiency, spending, and volume variances of a manufacturing entity are recognised in income at interim reporting dates to the same extent that those variances are recognised in income at the end of an annual reporting period. Deferral of 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 date at more or less than its portion of the actual cost of manufacture.

Foreign Currency Translation Gains and Losses

B29. Foreign currency translation gains and losses are measured for interim financial reporting by the same principles as at the end of each annual reporting period.

B30. AASB 121 *The Effects of Changes in Foreign Exchange Rates* specifies how to translate the financial reports for foreign operations into the presentation currency, including guidelines for using average or closing foreign exchange rates and guidelines for recognising the resulting adjustments in profit or loss or in equity. Consistently with AASB 121, the actual average and closing rates for the interim period are used. Entities do not anticipate some future changes in foreign exchange rates in the remainder of the current annual reporting period in translating foreign operations at an interim date.

B31. If AASB 121 requires translation adjustments to be recognised as income or expense in the period in which they arise, that principle is applied during each interim period. Entities do not defer some foreign currency translation adjustments at an interim date if the adjustment is expected to reverse before the end of each annual reporting period.

Interim Financial Reporting in Hyperinflationary Economies

B32. Interim financial reports in hyperinflationary economies are prepared by the same principles as at the end of an annual reporting period.

B33. AASB 129 *Financial Reporting in Hyperinflationary Economies* requires that the financial statements of an entity that reports 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 is included in net income. Also, comparative financial data reported for prior periods is restated to the current measuring unit.

B34. Entities follow those same principles at interim dates, thereby presenting all interim data 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 income. 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.

Impairment of Assets

B35. AASB 136 *Impairment of Assets* requires that an impairment loss be recognised if the recoverable amount has declined below carrying amount.

B36. This Standard requires that an entity apply the same impairment testing, recognition and reversal criteria at an interim date as it would at the end of its annual reporting period. That does not mean, however, that an entity must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an entity will review for indications of significant impairment since the end of the most recent annual reporting period to determine whether such a calculation is needed.

APPENDIX C

Examples of the Use of Estimates

This appendix, which accompanies, but is not part of, AASB 134, provides examples to illustrate application of the principle in paragraph 41.

C1. **Inventories:** Full stock-taking and valuation procedures may not be required for inventories at interim dates, although it may be done at the end of an annual reporting period. It may be sufficient to make estimates at interim dates based on sales margins.

C2. **Classifications of current and non-current assets and liabilities:** Entities may do a more thorough investigation for classifying assets and liabilities as current or non-current at annual reporting dates than at interim dates.

C3. **Provisions:** Determination of the appropriate amount of a provision (such as a provision for warranties, environmental costs and site restoration costs) may be complex and often costly and time-consuming. Entities sometimes engage outside experts to assist in the annual calculations. Making similar estimates at interim dates often entails updating of the prior annual provision rather than the engaging of outside experts to do a new calculation.

C4. **Pensions:** AASB 119 *Employee Benefits* requires that an entity determine the present value of defined benefit obligations and the market value of plan assets at each reporting date and encourages an entity to involve a professionally qualified actuary in measurement of the obligations. For interim reporting purposes, reliable measurement is often obtainable by extrapolation of the latest actuarial valuation.

C5. **Income taxes:** Entities may calculate income tax expense and deferred income tax liability at annual dates by applying the tax rate for each individual jurisdiction to measures of income for each jurisdiction. Paragraph 14 of Appendix B acknowledges that while that degree of precision is desirable at interim reporting dates as well, 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.

C6. **Contingencies:** The measurement of contingencies may involve the opinions of legal experts or other advisers. Formal reports from independent experts are sometimes obtained with respect to contingencies. Such opinions about litigation, claims, assessments and other contingencies and uncertainties may or may not also be needed at interim dates.

C7. **Revaluations and fair value accounting:** AASB 116 *Property, Plant and Equipment* allows an entity to choose as its accounting policy the revaluation model whereby items of property, plant and equipment are revalued to fair value. Similarly, AASB 140 *Investment Property* requires an entity to determine the fair value of investment property. For those measurements, an entity may rely on professionally qualified valuers at annual reporting dates though not at interim reporting dates.

C8. **Intercompany reconciliations:** Some intercompany balances that are reconciled on a detailed level in preparing consolidated financial statements at the end of an annual reporting period might be reconciled at a less detailed level in preparing consolidated financial statements at an interim date.

C9. **Specialised industries:** Because of complexity, costliness, and time, interim period measurements in specialised industries might be less precise than at the end of an annual reporting period. An example would be calculation of insurance reserves by insurance companies.

DIFFERENCES BETWEEN AASB 134 AND AASB 1029

This analysis of differences accompanies, but is not part of, AASB 134.

This section identifies differences between AASB 1029 *Interim Financial Reporting* and AASB 134 *Interim Financial Reporting*, under the following headings.

A: Incompatibilities between AASB 1029 and AASB 134

B: AASB 1029 is more detailed or restrictive

C: AASB 134 is more detailed or restrictive

D: AASB 1029 disclosures are more extensive

E: AASB 134 disclosures are more extensive

The analysis of differences should not be taken as providing an exhaustive list of differences.

Introduction

AASB 134 and AASB 1029 prescribe the minimum content of interim general purpose financial reports. However, neither AASB 134 nor AASB 1029 mandates the publication of interim financial reports or their frequency or timing, on the grounds that these issues are addressed by regulators and stock exchanges.

In terms of the approach to interim financial reporting, both AASB 134 and AASB 1029 consider interim periods to be discrete reporting periods in the sense that the entity uses the same recognition and measurement principles in interim financial reports as it uses in its annual financial reports.

Differences

A. Incompatibilities between AASB 1029 and AASB 134

None noted.

B. AASB 1029 is more detailed or restrictive

B.1 Interim reporting period and annual reporting period

AASB 1029.5.1.3, 8.1.4, 9.1.1 and 9.1.2 contain commentary additional to that in AASB 134 clarifying the definitions of annual and interim reporting periods, and the relationship between annual reporting periods and interim reporting periods. For example:

(a) AASB 1029.9.1.1 comments that an annual reporting period will differ from twelve months in circumstances such as the entity being established on a date other than a date exactly twelve months before the reporting date and the entity changing its reporting date;

(b) AASB 1029.9.1.2 comments that in circumstances such as the above, 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; and

(c) AASB 1029.8.1.4 comments that where the current or immediately preceding annual reporting period differs from twelve months, an interim reporting period, whether current or annual reporting period to date, may not directly correspond to the comparative counterpart.

B.2 Annually determined items

AASB 1029.6.1.3-6.1.5 contain detailed commentary on the treatment of annually determined items. AASB 134 does not contain such commentary.

B.3 Revisions of estimates and corrections of errors

AASB 1029.6.4-6.4.3 incorporates requirements and commentary relating to the revisions of estimates and corrections of errors. AASB 134 relies on the general requirements contained in AASB 108.

B.4 Irregularity

AASB 1029.7.4.1 contains commentary to explain the meaning of "irregularity". AASB 134.16 and 37 use the term "cyclicality" instead of the term "irregularity" without explanation.

C. AASB 134 is more detailed or restrictive

C.1 Examples of the use of estimates

AASB 134, Appendix C, contains examples of the use of estimates in preparing interim financial reports. AASB 1029 does not contain an equivalent appendix.

D. AASB 1029 disclosures are more extensive

D.1 Reporting date and measurement basis

AASB 1029.7.4 requires the disclosure of:

(a) the reporting date, 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; and

(c) the measurement basis or bases used in preparing the interim financial report, if there is a change from the most recent annual financial report.

AASB 134 does not require such disclosures, however, the related provisions of AASB 101 *Presentation of Financial Statements* are applicable to interim financial reports.

D.2 Dividends

AASB 1029.7.5(d) requires, for each class of shares included in equity, disclosure of the amount in aggregate or per share of dividends that was either recognised as a liability in the interim reporting period or paid during the interim reporting period without previously being recognised as a liability. (See also E.1)

E. AASB 134 disclosures are more extensive

E.1 Dividends

AASB 134.16(f) requires that dividends paid, in aggregate or per share, to be disclosed for ordinary shares and other shares. In addition, AASB 134.Aus16.2 requires the disclosure of the amount in aggregate or per share of dividends that were either recognised as distributions to equity holders, or proposed or declared before the interim report was authorised for issue but not recognised as a distribution to equity holders as well as the amount of any cumulative preference dividends not recognised.