

Explanatory Statement

Accounting Standard AASB 2007-9
Amendments to Australian Accounting
Standards arising from the Review of
AASs 27, 29 and 31

December 2007



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 2007-9

AASB 2007-9 makes amendments to the following Australian Accounting Standards:

- (a) AASB 3 *Business Combinations*;
- (b) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (c) AASB 8 *Operating Segments*;
- (d) AASB 101 *Presentation of Financial Statements*;
- (e) AASB 114 *Segment Reporting*;
- (f) AASB 116 *Property, Plant and Equipment*;
- (g) AASB 127 *Consolidated and Separate Financial Statements*; and
- (h) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

These amendments arise from the review of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*, which primarily entailed relocating material from industry-based Standards to topic-based Standards.

Main Features of AASB 2007-9

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008, provided there is early adoption for the same annual reporting period of the following pronouncements being issued at about the same time, as applicable:

- (a) AASB 1004 *Contributions*;
- (b) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;

- (c) AASB 1050 *Administered Items*;
- (d) AASB 1051 *Land Under Roads*;
- (e) AASB 1052 *Disaggregated Disclosures*; and
- (f) AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Main Requirements

AASB 3 Business Combinations

The amendments to AASB 3 extend the definition of reporting entity to explicitly encompass local governments, governments and most, if not all, government departments.

The amendments also incorporate the requirements from AAS 27 relating to restructures of local governments.

AASB 5 Non-current Assets Held for Sale and Discontinued Operations

The amendments to AASB 5 are consequential amendments to reflect:

- (a) the inclusion of requirements for the restructure of administrative arrangements in AASB 1004 rather than AAS 29;
- (b) the introduction of AASB 1050; and
- (c) the fact that requirements relating to restructures of local governments that are business combinations are now contained in AASB 3 rather than AAS 27.

AASB 8 Operating Segments

The amendment to AASB 8 clarifies that for-profit government departments are outside the scope of AASB 8.

AASB 101 Presentation of Financial Statements

The amendments to AASB 101 are consequential amendments dealing with circumstances where compliance with Australian Accounting Standards by for-profit government departments will not lead to compliance with International Financial Reporting Standards.

AASB 114 Segment Reporting

The amendments to AASB 114 clarify that for-profit government departments are outside the scope of AASB 114, reflect the fact that AASs 27, 29 and 31 have been superseded, and acknowledge the disaggregated reporting requirements in AASB 1052 and AASB 1049.

AASB 116 Property, Plant and Equipment

The amendments to AASB 116:

- (a) specify (in the 'Definitions' section) that examples of property, plant and equipment held by not-for-profit public sector entities and for-profit government departments include, but are not limited to, infrastructure, cultural, community and heritage assets; and
- (b) note in Australian Guidance (that accompanies the Standard) that:
 - (i) heritage and cultural assets acquired at no cost, or for a nominal cost, are required to be initially recognised at fair value as at the date of acquisition; and that, depending on circumstances, it may not be possible to reliably measure the fair value as at the date of acquisition of a heritage or cultural asset;
 - (ii) for those heritage and cultural assets that satisfy the reliable measurement criterion for initial recognition purposes, paragraph 29 of AASB 116 permits, but does not require, revaluation, although AASB 1049 requires, subject to reliable measurement, revaluations by whole of governments and General Government Sectors; and
 - (iii) heritage and cultural assets may not have limited useful lives (for example, when appropriate curatorial and preservation policies are adopted), and therefore may not be subject to depreciation, irrespective of the measurement basis. However, they would be subject to impairment testing when there is an indication of impairment.

AASB 127 Consolidated and Separate Financial Statements

The amendments to AASB 127 incorporate existing guidance from AAS 31 on the concept of control in the public sector. For example they:

- (a) note that control of another entity by a government may be indicated if the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; or if the government has the residual financial

interest in the net assets of the other entity. The amendments discuss factors that help in assessing whether these indicators of control exist;

- (b) identify situations where a government does not control another entity. For example, they note that under existing legislative arrangements, State and Territory governments do not control local governments; and
- (c) clarify that the existence of control for the purpose of AASB 127 does not require that a government has responsibility over the day-to-day operations of an entity or the manner in which professional functions are performed by the entity.

AASB 137 Provisions, Contingent Liabilities and Contingent Assets

The amendments to AASB 137 address obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent of local governments, government departments and governments by relocating the pertinent content of paragraphs 12.1.2 and 12.1.3 of AAS 31, substantively unamended, into AASB 137 as Aus paragraphs.

Consultation Prior to Issuing AASB 2007-9

The first stage of the short-term review of the requirements in AASs 27, 29 and 31 was the preparation of a paragraph-by-paragraph analysis of each Standard, listing each paragraph alongside corresponding Standards or other pronouncements that would apply to local governments, government departments or governments in the absence of AASs 27, 29 and 31. These paragraph-by-paragraph analyses were made available on the AASB website for the information of constituents.

Formal proposals were included in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which was issued in June 2007 for public comment by 3 September 2007. Eighteen submissions were received. After considering the submissions, the AASB decided to amend some of the proposals before reflecting its decisions in AASB 2007-9.

A Regulatory Impact Statement has not been prepared in connection with the issue of this Standard as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.