

Explanatory Statement

Accounting Standard AASB 101 *Presentation of Financial Statements*

September 2007



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 101

Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 January 2005 include International Financial Reporting Standards (IFRSs). IFRSs are issued by the International Accounting Standards Board (IASB). Their adoption in Australia by the Australian Accounting Standards Board (AASB) is in accordance with a strategic direction made by the Financial Reporting Council (FRC).

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 has issued IAS 1 *Presentation of Financial Statements* which supersedes IAS 1 *Presentation of Financial Statements* (as amended to 2005) for annual reporting periods beginning on or after 1 January 2009. The AASB issued an amended AASB 1 *Presentation of Financial Statements* to enable Australian reporting entities to continue to be compliant with IFRSs in relation to the presentation of financial statements.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

Main Requirements

This Standard prescribes:

- (a) the composition of a complete set of financial statements:
 - (i) a statement of financial position as at the end of the period;
 - (ii) a statement of comprehensive income for a period;

- (iii) a statement of changes in equity for a period;
 - (iv) a statement of cash flows for a period;
 - (v) notes, comprising a summary of significant accounting policies and other explanatory notes;
 - (vi) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
- (b) the general features of financial statements:
- (i) fair presentation and compliance with IFRSs and Australian Accounting Standards;
 - (ii) going concern;
 - (iii) accrual basis of accounting;
 - (iv) consistency of presentation;
 - (v) materiality and aggregation;
 - (vi) offsetting;
 - (vii) frequency of reporting;
 - (viii) comparative information;
- (c) the structure and content of financial statements;
- (d) classification of items in the financial statements; and
- (e) a range of disclosures about financial position and financial performance.

Differences between this Standard and AASB 101 as issued in October 2006

The main changes from AASB 101 as issued in October 2006 are described below.

A complete set of financial statements

This Standard introduces the notion of a ‘complete set of financial statements’, described under ‘Main Requirements’.

The previous version of AASB 101 used the titles ‘balance sheet’ and ‘cash flow statement’ to describe two of the statements within a complete set of financial statements. This Standard uses ‘statement of financial position’ and ‘statement of cash flows’ for those statements, although entities can use other statement titles.

This Standard requires an entity to disclose comparative information in respect of the previous period – that is, to disclose as a minimum two of each of the statements and related notes.

Reporting owner changes in equity and comprehensive income

The previous version of AASB 101 required the presentation of an income statement that included items of income and expense recognised in profit or loss. It required items of income and expense not recognised in profit or loss to be presented in the statement of changes in equity, together with owner changes in equity. It also labelled the statement of changes in equity comprising profit or loss, other items of income and expense and the effects of changes in accounting policies and correction of errors as ‘statement of recognised income and expense’. This Standard now requires:

- (a) all changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (i.e. non-owner changes in equity) in the statement of changes in equity. The purpose is to provide better information to users by requiring aggregation of items with shared characteristics and separation of items with different characteristics;
- (b) income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity;
- (c) components of other comprehensive income to be displayed in the statement of comprehensive income; and
- (d) total comprehensive income to be presented in the financial statements.

Other comprehensive income – reclassification adjustments and related tax effects

This Standard requires an entity to disclose income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not include such a requirement.

This Standard also requires an entity to disclose reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in previous periods.

Presentation of dividends

The previous version of AASB 101 permitted disclosure of the amount of dividends recognised as distributions to equity holders (now referred to as ‘owners’) and the related amount per share in the income statement, in the statement of changes in equity or in the notes. This Standard now requires dividends recognised as distributions to owners and related amounts per share to be presented in the statement of changes in equity or in the notes. The presentation of such disclosures in the statement of comprehensive income is not permitted.

Consequential Amendments

Consequential amendments to other Australian Accounting Standards are included in *AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101* (September 2007).

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 148 *Proposed Amendments to AASB 101 Presentation of Financial Statements: A Revised Presentation*, the Australian equivalent to the IASB Exposure Draft of *Proposed Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation*, in April 2006. The AASB’s ED 148:

- (a) reproduced the IASB proposals without amendment and sought constituents’ views on the IASB’s proposed amendments; and
- (b) identified differences between AASB 101 and IAS 1 and provided the AASB’s then preliminary views on each difference and sought constituents’ comments on those views.

One hundred and seventy-seven submissions were received in respect of the proposals in the ED and although there was support for adopting an

Australian equivalent to the proposed revised IAS 1, there was concern about the proposed changes to commentary supporting the IASB's definition of general purpose financial statements. The commentary supporting the IASB's definition of general purpose financial statements has not been included in the revised versions of IAS 1 and AASB 101.

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.