

AASB 1 *First-time adoption of Australian Accounting Standards and IFRS for SMEs* Section 35 *Transition to the IFRS for SMEs*

1. Executive Summary**Main differences in recognition, measurement or presentation requirements**

The transition requirements relating to recognition and measurement in AASB 1 and the *IFRS for SMEs* are similar. This includes the general requirement for retrospective application to the beginning of the earliest period presented (the transition date) of the recognition and measurement requirements of IFRSs/the *IFRS for SMEs*, with any impacts of changes from previous GAAP being recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition.

Both AASB 1 and the *IFRS for SMEs* include exceptions regarding retrospectively applying recognition and measurement requirements in respect of the derecognition of financial assets and financial liabilities; hedge accounting; accounting estimates; measuring non-controlling interests; business combinations; share-based payment transactions; fair value/revaluation as deemed cost; cumulative translation differences; separate financial statements in respect of investments in subsidiaries, associates, and jointly controlled entities; compound financial instruments; service concession arrangements; arrangements containing a lease; decommissioning liabilities. AASB 6 *Exploration and Evaluation of Mineral Resources* and the *IFRS for SMEs* both grandfather some previous GAAP in accounting for extractive activities.

There are some differences in the exclusions between IFRSs and the *IFRS for SMEs*, including:

- AASB 4 *Insurance Contracts* grandfathers some previous GAAP in accounting for insurance contracts, while it is assumed that the *IFRS for SMEs* does not apply to insurers;
- the *IFRS for SMEs* has transitional exemptions for deferred tax assets or deferred tax liabilities; and
- the *IFRS for SMEs* has transitional exemptions for discontinued operations.

Disclosure proposals

It is proposed to exclude paragraphs 22, 24(c), 25, 29, 30, 31, 32 (only reference to paragraph 25) and 33 from the Reduced Disclosure Regime (RDR).

2. Analysis of disclosure requirements

<p align="center">Text in AASB 1 <i>First-time adoption of Australian Accounting Standards</i></p>	<p align="center">Text in IFRS for SMEs <i>Section 35 Transition to the IFRS for SMEs</i></p>	<p align="center">Comment</p>
<p>Non-Australian-Accounting-Standards comparative information and historical summaries</p> <p>22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with Australian Accounting Standards. This Standard does not require such summaries to comply with the recognition and measurement requirements of Australian Accounting Standards. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by AASB 101. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:</p> <ul style="list-style-type: none"> (a) label the previous GAAP information prominently as not being prepared in accordance with Australian Accounting Standards; and (b) disclose the nature of the main adjustments that would make it comply with Australian Accounting Standards. An entity need not quantify those adjustments. 		<p>Paragraph 22 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p>

Text in AASB 1 <i>First-time adoption of Australian Accounting Standards</i>	Text in <i>IFRS for SMEs</i> Section 35 <i>Transition to the IFRS for SMEs</i>	Comment
<p>Explanation of transition to Australian Accounting Standards</p> <p>23 An entity shall explain how the transition from previous GAAP to Australian Accounting Standards affected its reported financial position, financial performance and cash flows.</p>	<p>Explanation of transition to the <i>IFRS for SMEs</i></p> <p>35.12 An entity shall explain how the transition from its previous financial reporting framework to this IFRS affected its reported financial position, financial performance and cash flows.</p>	<p>Paragraph 23 and paragraph 35.12 of the <i>IFRS for SMEs</i> correspond. Paragraph 23 should be retained in the RDR.</p>
<p>Reconciliations</p> <p>24 To comply with paragraph 23, an entity's first Australian-Accounting-Standards financial statements shall include:</p> <p>(a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Australian Accounting Standards for both of the following dates:</p> <p>(i) the date of transition to Australian Accounting Standards; and</p> <p>(ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.</p> <p>(b) a reconciliation to its total comprehensive income in accordance with Australian Accounting Standards for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.</p> <p>(c) if the entity recognised or reversed any impairment</p>	<p>Reconciliations</p> <p>35.13 To comply with paragraph 35.12, an entity's first financial statements prepared using this IFRS shall include:</p> <p>(a) a description of the nature of each change in accounting policy.</p> <p>(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this IFRS for both of the following dates:</p> <p>(i) the date of transition to this IFRS, and</p> <p>(ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.</p> <p>(c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this IFRS for the same period.</p>	<p>Paragraphs 24(a) and 24(b) and paragraphs 35.13(b) and 35.13(c) of the <i>IFRS for SMEs</i> correspond. Paragraphs 24(a) and 24(b) should be retained in the RDR.</p> <p>Paragraph 35.13(a) in the <i>IFRS for SMEs</i> has no equivalent in AASB 1 and, based on the reasoning in paragraph IN4 of this Appendix, should not be added to the RDR.</p> <p>Paragraph 24(c) has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p>

Text in AASB 1 <i>First-time adoption of Australian Accounting Standards</i>	Text in IFRS for SMEs <i>Section 35 Transition to the IFRS for SMEs</i>	Comment
<p>losses for the first time in preparing its opening Australian-Accounting-Standards statement of financial position, the disclosures that AASB 136 <i>Impairment of Assets</i> would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Australian Accounting Standards.</p>		
<p>25 The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.</p>		<p>Although paragraph 25 relates to paragraphs 24(a) and 24(b) that are proposed to be retained in the RDR, it expands on those requirements, rather than providing guidance. Also, the <i>IFRS for SMEs</i> does not expand disclosure to cash flows. Therefore, paragraph 25 is regarded as having no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p>
<p>26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.</p>	<p>35.14 If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations required by paragraph 35.13(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.</p>	<p>Paragraph 26 and paragraph 35.14 of the <i>IFRS for SMEs</i> correspond. Paragraph 26 should be retained in the RDR.</p>
<p>27 AASB 108 does not deal with changes in accounting policies that occur when an entity first adopts Australian Accounting Standards. Therefore, AASB 108's requirements for disclosures about changes in accounting policies do not apply in an entity's first Australian-Accounting-Standards financial statements.</p>		<p>Paragraph 27 is in the nature of guidance and should be retained in the RDR based on the reasoning in paragraph IN7 of this Appendix.</p>
<p>28 If an entity did not present financial statements for previous periods, its first Australian-Accounting-Standards financial statements shall disclose that fact.</p>	<p>35.15 If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this IFRS.</p>	<p>Paragraph 28 and paragraph 35.15 of the <i>IFRS for SMEs</i> correspond. Paragraph 26 should be retained in the RDR.</p>

<p align="center">Text in AASB 1 <i>First-time adoption of Australian Accounting Standards</i></p>	<p align="center">Text in IFRS for SMEs <i>Section 35 Transition to the IFRS for SMEs</i></p>	<p align="center">Comment</p>
<p>Designation of financial assets or financial liabilities</p> <p>29 An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph D19. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.</p>		<p>Paragraph 29, second sentence, includes disclosure requirement and has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p>
<p>Use of fair value as deemed cost</p> <p>30 If an entity uses fair value in its opening Australian-Accounting-Standards statement of financial position as <i>deemed cost</i> for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs D5 and D7), the entity’s first Australian-Accounting-Standards financial statements shall disclose, for each line item in the opening Australian-Accounting-Standards statement of financial position:</p> <p>(a) the aggregate of those fair values; and</p> <p>(b) the aggregate adjustment to the carrying amounts reported under previous GAAP.</p>		<p>Paragraph 30, second sentence, has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p>

<p align="center">Text in AASB 1 <i>First-time adoption of Australian Accounting Standards</i></p>	<p align="center">Text in IFRS for SMEs <i>Section 35 Transition to the IFRS for SMEs</i></p>	<p align="center">Comment</p>
<p>Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates</p> <p>31 Similarly, if an entity uses a deemed cost in its opening Australian-Accounting-Standards statement of financial position for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements (see paragraph D15), the entity's first Australian-Accounting-Standards separate financial statements shall disclose:</p> <ul style="list-style-type: none"> (a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount; (b) the aggregate deemed cost of those investments for which deemed cost is fair value; and (c) the aggregate adjustment to the carrying amounts reported under previous GAAP. 		<p>Paragraph 31 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p>

<p align="center">Text in AASB 1 <i>First-time adoption of Australian Accounting Standards</i></p>	<p align="center">Text in <i>IFRS for SMEs</i> Section 35 <i>Transition to the IFRS for SMEs</i></p>	<p align="center">Comment</p>
<p>Interim financial reports</p> <p>32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with AASB 134 for part of the period covered by its first Australian-Accounting-Standards financial statements, the entity shall satisfy the following requirements in addition to the requirements of AASB 134:</p> <p>(a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:</p> <p>(i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under Australian Accounting Standards at that date; and</p> <p>(ii) a reconciliation to its total comprehensive income in accordance with Australian Accounting Standards for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.</p> <p>(b) In addition to the reconciliations required by (a), an entity’s first interim financial report in accordance with AASB 134 for part of the period covered by its first Australian-Accounting-Standards financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross reference to another published document that includes these reconciliations.</p>	<p align="center">7</p>	<p>The <i>IFRS for SMEs</i> does not address the topic of interim financial reports and paragraph 32 has no equivalent in the <i>IFRS for SMEs</i>. However, an entity applying Tier 2 requirements may choose, or may be required, to prepare interim financial reports. Such an entity may first-adopt Tier 2 in an interim financial report. Accordingly, paragraph 32(a) and 32(b) should be retained in the RDR except for the reference in paragraph 32(b) to paragraph 25 (paragraph 25 has been excluded from the RDR).</p>

<p>Text in AASB 1 <i>First-time adoption of Australian Accounting Standards</i></p>	<p>Text in IFRS for SMEs <i>Section 35 Transition to the IFRS for SMEs</i></p>	<p>Comment</p>
<p>33 AASB 134 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, AASB 134 also requires an entity to disclose ‘any events or transactions that are material to an understanding of the current interim period’. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.</p>		<p>Paragraph 33 has no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p>

3. AASB 1 *First-time adoption of Australian Accounting Standards*: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 1 *First-time adoption of Australian Accounting Standards* (2009), showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

- 22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with Australian Accounting Standards. This Standard does not require such summaries to comply with the recognition and measurement requirements of Australian Accounting Standards. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by AASB 101. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:
- (a) label the previous GAAP information prominently as not being prepared in accordance with Australian Accounting Standards; and
 - (b) disclose the nature of the main adjustments that would make it comply with Australian Accounting Standards. An entity need not quantify those adjustments.

Explanation of transition to Australian Accounting Standards

- 23 **An entity shall explain how the transition from previous GAAP to Australian Accounting Standards affected its reported financial position, financial performance and cash flows.**

Reconciliations

- 24 To comply with paragraph 23, an entity's first Australian-Accounting-Standards financial statements shall include:
- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Australian Accounting Standards for both of the following dates:
 - (i) the date of transition to Australian Accounting Standards; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
 - (b) a reconciliation to its total comprehensive income in accordance with Australian Accounting Standards for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
 - (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening Australian-Accounting-Standards statement of financial position, the disclosures that AASB 136 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Australian Accounting Standards.
- 25 The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of

cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.

- 26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.
- 27 AASB 108 does not deal with changes in accounting policies that occur when an entity first adopts Australian Accounting Standards. Therefore, AASB 108's requirements for disclosures about changes in accounting policies do not apply in an entity's first Australian-Accounting-Standards financial statements.
- 28 If an entity did not present financial statements for previous periods, its first Australian-Accounting-Standards financial statements shall disclose that fact.

Designation of financial assets or financial liabilities

- 29 An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph D19. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

Use of fair value as deemed cost

- 30 If an entity uses fair value in its opening Australian-Accounting-Standards statement of financial position as *deemed cost* for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs D5 and D7), the entity's first Australian-Accounting-Standards financial statements shall disclose, for each line item in the opening Australian-Accounting-Standards statement of financial position:
- (a) the aggregate of those fair values; and
 - (b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates

- 31 Similarly, if an entity uses a deemed cost in its opening Australian-Accounting-Standards statement of financial position for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements (see paragraph D15), the entity's first Australian-Accounting-Standards separate financial statements shall disclose:
- (a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;
 - (b) the aggregate deemed cost of those investments for which deemed cost is fair value; and
 - (c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Interim financial reports

- 32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with AASB 134 for part of the period covered by its first Australian-Accounting-Standards financial statements, the entity shall satisfy the following requirements in addition to the requirements of AASB 134:

- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under Australian Accounting Standards at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with Australian Accounting Standards for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
- (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with AASB 134 for part of the period covered by its first Australian-Accounting-Standards financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross reference to another published document that includes these reconciliations.

33 AASB 134 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, AASB 134 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.