



Flash Report

AUSTRALIA

07FR-039 Revised IAS 1 / AASB 101 *Presentation of Financial Statements* 4 October 2007

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Key points

This Flash Report announces the release of the IASB's revised IAS 1 *Presentation of Financial Statements* ("IAS 1"), the AASB's revised AASB 101 *Presentation of Financial Statements* ("AASB 101") and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* ("AASB 2007-8") and highlights:

- key changes from the current version of IAS 1 / AASB 101, including:
 - introduction of "total comprehensive income"
 - change in titles of some of the financial statements
 - statement of financial position required at beginning of earliest comparative period when comparatives are "restated"
 - disclosure of reclassification adjustments and income tax for each component of other comprehensive income.
- changes to definitions in the revision to AASB 101.
- action items arising from the revised standard.

Revised IAS 1 / AASB 101 are effective for annual periods beginning on or after 1 January 2009, with early adoption permitted.

Revised IAS 1 is available on the IASB's website at www.iasb.org.

Revised AASB 101 and AASB 2007-8 are available on the AASB's website at www.aasb.com.au.

[Flash Reports Yearly Index](#)

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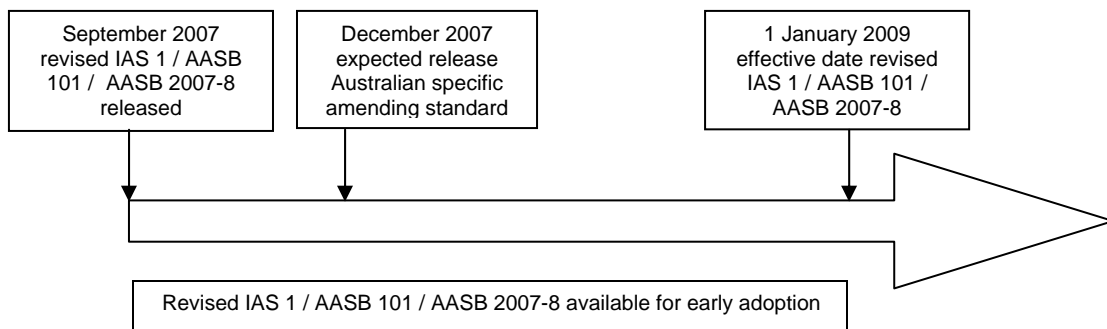
Background

The revised IAS 1 is a result of phase A of the IASB's financial statement presentation project. The objective of the project is to enhance the usefulness of the information presented in a complete set of financial statements by addressing presentation and display issues.

The revised standard is applicable for periods beginning on or after 1 January 2009, with early adoption permitted.

Phase B will be undertaken jointly with the U.S. Financial Accounting Standards Board and will focus on more detailed issues related to the presentation of information on the face of financial statements, including required totals and subtotals.

Timeline



The changes

Key change – introduction of total comprehensive income

The revised standard introduces “total comprehensive income”, which represents the change in equity during a period, other than changes resulting from transactions with owners in their capacity as owners.

Revised IAS 1 / AASB 101 now requires:

- income and expenses to be presented separately from owner changes in equity in either:
 - one statement (i.e. a statement of comprehensive income); or
 - two statements (i.e. a separate income statement and a statement of comprehensive income).
- all owner changes in equity (i.e. changes in equity arising from transactions with owners in their capacity as owners) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income in the statement of changes in equity.
- the statement of changes in equity must be presented as a separate financial statement, not as a note.

The introduction of the statement of comprehensive income represents a change from the current IAS 1 / AASB 101 requirements for presentation of income and expenditure, as outlined in the table following.

Options - current IAS 1 / AASB 101	Options - revised IAS 1 / AASB 101
Income statement Statement of recognised income and expense Equity note - other movements in equity arising from transactions with owners as owners	<u>One statement approach</u> Statement of comprehensive income Statement of changes in equity
Income statement Statement of changes in equity	<u>Two statement approach</u> Income statement Statement of comprehensive income Statement of changes in equity

The one statement approach is a return to former AGAAP requirements.

Appendix A includes an example of the presentation of total comprehensive income in one or two statements.

Other changes

Other changes from the current IAS 1 / AASB 101 requirements include:

- the titles “statement of financial position” and “statement of cash flows” instead of “balance sheet” and “cash flow statement”. The new titles will be used in the accounting standards but are not mandatory for use in financial statements
- a “statement of financial position” is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. In these circumstances an entity must present three statements of financial position (and related notes)
- reclassification adjustments to profit or loss of amounts previously recognised in other comprehensive income (formerly “recycling” of items to profit or loss) are disclosed for each component of other comprehensive income. Entities may present reclassification adjustments in the statement of comprehensive income or in the notes
- income tax is disclosed for each component of other comprehensive income
- dividends and related per-share amounts are disclosed either on the face of the statement of changes in equity or in the notes. They cannot be disclosed on the face of the statement of comprehensive income or income statement.

Guidance on implementing IAS 1 / AASB 101 accompanies, but is not part of the standard.

AASB considerations

The AASB has recently issued:

- Revised AASB 101 *Presentation of Financial Statements*
- AASB 2007-8 *Amendments to Australian Accounting Standards arising from amended AASB 101*.

Definitional changes

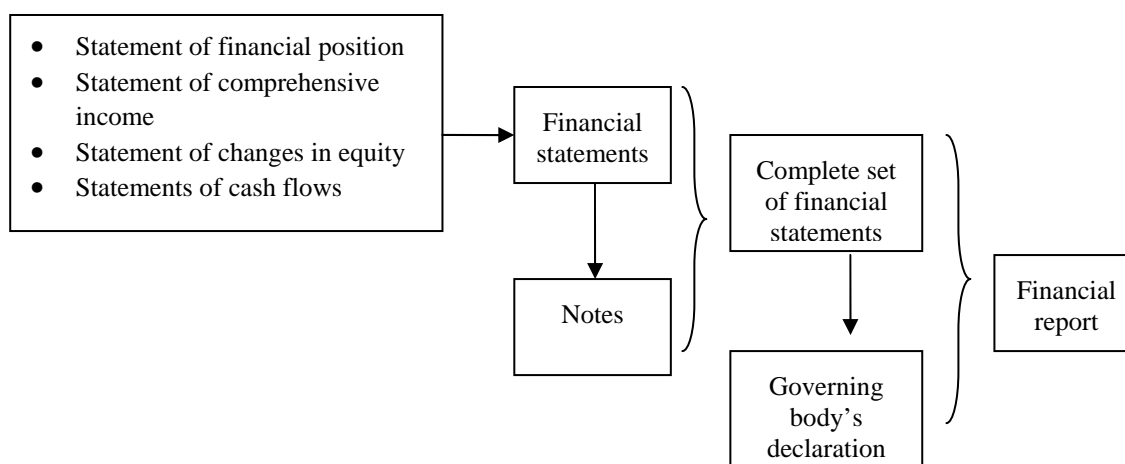
The Board decided to:

- discontinue its previous practice of substituting “financial report” for the IASB term “financial statements” within AASB 101, and adopt the IASB definition of “general purpose financial statements”
- delete the definition of “Australian equivalents to IFRSs” from AASB 101
- replace the AASB reference to “Australian equivalents to IFRSs” with “Australian Accounting Standards”.

Financial report vs. financial statements

Revised IAS 1 introduces the notion of a “complete set of financial statements” which comprises the primary statements and the notes. Currently there is variation across standards regarding whether financial statements include notes or not. AASB has previously substituted “financial report” for “financial statements” to be clear that the notes are included.

The following diagram represents the relationships between “financial statements,” “complete set of financial statements” and “financial report”.



The revised AASB 101 uses the IASB term “financial statements”. References to “general purpose financial report(s)” and “financial report(s)” in other Australian Accounting Standards will be amended by a separate amending standard to be considered at a future Board meeting.

The AASB clarified that special purpose financial reports prepared in accordance with the *Corporations Act 2001* must prepare financial statements in accordance with AASB 101.

General purpose financial statements

The current version of IAS 1 does not include a definition of “general purpose financial report / statements”. However, revised IAS 1 introduces the following definition:

“General purpose financial statements are those intended to meet the needs of users who are not in a position to require an entity to prepare financial reports tailored to their particular information needs”.

This new definition replaces the existing definition of “general purpose financial report” in the revised AASB 101.

KPMG comment

As noted in 07FR-030, the Board considers the IASB definitions to be the same as the existing AASB definitions, however, there are subtle differences and they could, in rare circumstances, capture different entities. Given that the current Australian emphasis on the “reporting entity” concept to determine financial reporting requirements, this is unlikely to have any impact until the results of the SME project are known as the “reporting entity” concept may be removed.

Reference to “Australian equivalents to IFRSs”

Although compliance by a for-profit entity with Australian Accounting Standards automatically leads to compliance with IFRSs, the use of the term “Australian equivalents to IFRSs” can create the impression that this is not the case. Accordingly, the Board has agreed to delete the definition of “Australian equivalents to IFRSs” and replace the reference to it with “Australian Accounting Standards”.

KPMG comment

The financial report basis of preparation note should already refer to Australian Accounting Standards as illustrated in Example Public June 2007.

Australian specific requirements

A summary of the Australian specific paragraphs contained in revised AASB 101 is detailed in Appendix B.

Actions

We encourage readers to identify the implications of these changes. For example, readers should consider:

- the most appropriate time to adopt the revised standard, particularly given the number of changes to other standards planned for 2009
- the impact of the revised changes on the presentation of an entity’s financial statements. For example:
 - where an additional statement of financial position is required (e.g. as a result of change in accounting policy), the new requirements may present a formatting challenge
- which alternative forms of presentation are most appropriate. For example:
 - entities have the choice as to which format of statement of comprehensive income is adopted
 - entities can elect whether to use the new titles
- comparability with other entities in the same industry.

Disclosure checklists and other reference material will be updated to reflect these changes.

30 June 2007 implications

KPMG comment

As noted in 07FR-036, entities who have not yet signed their 30 June 2007 financial report and wish to state compliance with IFRS must refer to the revised IAS 1 as a standard on issue but not yet adopted in order to claim compliance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 30 and 31.

Similarly, given the recent issue of the revised AASB 101, financial reports need to refer to it as a standard on issue but not yet adopted in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 30 and 31.

Illustration of IAS 1 *Presentation of Financial Statements* (Revised 2007)

September 2007

The following example, which illustrates the presentation and disclosure requirements in respect of comprehensive income, is based on the 2007 edition of KPMG's Illustrative Financial Statements.

Only references to IAS 1 (Revised) are shown in the example.

Reference Statement of comprehensive income
IAS 1.10(b), 81(a) (Single-statement approach)

For the year ended 31 December

In thousands of euro

	2007	2006
Continuing operations		
IAS 1.82(a) Revenue	99,810	96,636
IAS 1.99, 103 Cost of sales	(55,475)	(56,186)
Gross profit	44,335	40,450
Other income	1,095	315
IAS 1.99, 103 Distribution expenses	(17,984)	(18,012)
IAS 1.99, 103 Administrative expenses	(17,142)	(15,269)
IAS 1.99, 103 Research and development expenses	(1,109)	(697)
IAS 1.99, 103 Other expenses	(460)	-
IAS 1.85 Results from operating activities	8,735	6,787
Finance income	911	480
IAS 1.82(b) Finance expenses	(1,760)	(1,676)
Net finance expense	(849)	(1,196)
Share of profit of equity accounted investees (net of income tax)	467	587
IAS 1.85 Profit before income tax	8,353	6,178
Income tax expense	(2,528)	(1,800)
IAS 1.85 Profit from continuing operations	5,825	4,378
Discontinued operation		
IAS 1.82(e) Profit (loss) from discontinued operation (net of income tax)	379	(422)
IAS 1.82(f) Profit for the period	6,204	3,956
Other comprehensive income		
IAS 1.82(g) Foreign currency translation differences for foreign operations	501	330
IAS 1.82(g) Net loss on hedge of net investment in foreign operation	(3)	(8)
IAS 1.82(g) Revaluation of property, plant and equipment	200	-
IAS 1.82(g) Cash flow hedges	(93)	66
IAS 1.82(g) Available-for-sale financial assets	135	94
IAS 1.82(g) Defined benefit plan actuarial gains (losses)	72	(15)
IAS 1.91(b) Income tax on other comprehensive income	(104)	(48)
IAS 1.85 Other comprehensive income for the period, net of income tax	708	419
IAS 1.82(i) Total comprehensive income for the period	6,912	4,375

Reference

Statement of comprehensive income (continued)
(Single-statement approach)

For the year ended 31 December

In thousands of euro

	2007	2006
Profit attributable to:		
IAS 1.83(a)(ii) Owners of the Company	5,828	3,737
IAS 1.83(a)(i) Minority interest	376	219
Profit for the period	6,204	3,956
Total comprehensive income attributable to:		
IAS 1.83(b)(ii) Owners of the Company	6,509	4,134
IAS 1.83(b)(i) Minority interest	403	241
Total comprehensive income for the period	6,912	4,375
Earnings per share		
Basic earnings per share (euro)	1.75	1.08
Diluted earnings per share (euro)	1.67	1.07
Continuing operations		
Basic earnings per share (euro)	1.63	1.22
Diluted earnings per share (euro)	1.56	1.21

Note:

In accordance with IAS 1.82(h), an entity's share of the other comprehensive income of an equity accounted investee is presented as a separate line item. For example, if an associate recognised a gain on the revaluation of property, plant and equipment, it would not be added to the revaluation line item within other comprehensive income. Instead, it would be presented as part of a separate line item "share of other comprehensive income of equity accounted investees". In this example this disclosure does not apply.

Reference
IAS 1.10(b), 12,
81(b), 84

Income statement (Two-statement approach)

For the year ended 31 December

In thousands of euro

	2007	2006
Continuing operations		
IAS 1.82(a) Revenue	99,810	96,636
IAS 1.99, 103 Cost of sales	(55,475)	(56,186)
Gross profit	44,335	40,450
Other income	1,095	315
IAS 1.99, 103 Distribution expenses	(17,984)	(18,012)
IAS 1.99, 103 Administrative expenses	(17,142)	(15,269)
IAS 1.99, 103 Research and development expenses	(1,109)	(697)
IAS 1.99, 103 Other expenses	(460)	-
IAS 1.85 Results from operating activities	8,735	6,787
Finance income	911	480
IAS 1.82(b) Finance expenses	(1,760)	(1,676)
Net finance expense	(849)	(1,196)
Share of profit of equity accounted investees (net of income tax)	467	587
IAS 1.82(c) Profit before income tax	8,353	6,178
IAS 1.85 Income tax expense	(2,528)	(1,800)
IAS 1.82(d) Profit from continuing operations	5,825	4,378
Discontinued operation		
IAS 1.82(e) Profit (loss) from discontinued operation (net of income tax)	379	(422)
IAS 1.82(f) Profit for the period	6,204	3,956
Profit attributable to:		
IAS 1.83(a)(ii) Owners of the Company	5,828	3,737
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Continuing operations		
Basic earnings per share (euro)	1.63	1.22
Diluted earnings per share (euro)	1.56	1.21

Reference Statement of comprehensive income
IAS 1.10(b), 12, 81(b) (Two-statement approach)

		2007	2006
For the year ended 31 December			
<i>In thousands of euro</i>			
IAS 1.81(b)	Profit for the period	6,204	3,956
Other comprehensive income			
IAS 1.82(g)	Foreign currency translation differences for foreign operations	501	330
IAS 1.82(g)	Net loss on hedge of net investment in foreign operation	(3)	(8)
IAS 1.82(g)	Revaluation of property, plant and equipment	200	-
IAS 1.82(g)	Cash flow hedges	(93)	66
IAS 1.82(g)	Available-for-sale financial assets	135	94
IAS 1.82(g)	Defined benefit plan actuarial gains (losses)	72	(15)
IAS 1.91(b)	Income tax on other comprehensive income	(104)	(48)
IAS 1.85	Other comprehensive income for the period, net of income tax	708	419
IAS 1.82(i)	Total comprehensive income for the period	6,912	4,375
Attributable to:			
IAS 1.83(b)(ii)	Owners of the Company	6,509	4,134
IAS 1.83(b)(i)	Minority interest	403	241
	Total comprehensive income for the period	6,912	4,375

Reference Components of other comprehensive income

		2007	2006
For the year ended 31 December			
<i>In thousands of euro</i>			
	Foreign currency translation differences for foreign operations	501	330
	Net loss on hedge of net investment in foreign operation	(3)	(8)
	Revaluation of property, plant and equipment	200	-
	Effective portion of changes in fair value	(93)	77
IAS 1.92	Net change in fair value transferred to profit or loss	-	(11)
	Cash flow hedges	(93)	66
	Net change in fair value	199	94
IAS 1.92	Net change in fair value transferred to profit or loss	(64)	-
	Available-for-sale financial assets	135	94
	Defined benefit plan actuarial gains (losses)	72	(15)
	Income tax on other comprehensive income	(104)	(48)
	Other comprehensive income for the period, net of income tax	708	419

Reference

Income tax on other comprehensive income

For the year ended 31 December

In thousands of euro

	2007			2006		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
<i>IAS 1.90</i>						
Foreign currency translation differences for foreign operations	501	-	501	330	-	330
<i>IAS 1.90</i>						
Net loss on hedge of net investment in foreign operation	(3)	-	(3)	(8)	-	(8)
<i>IAS 1.90</i>						
Revaluation of property, plant and equipment	200	(66)	134	-	-	-
<i>IAS 1.90</i>						
Cash flow hedges	(93)	31	(62)	66	(22)	44
<i>IAS 1.90</i>						
Available-for-sale financial assets	135	(45)	90	94	(31)	63
<i>IAS 1.90</i>						
Defined benefit plan actuarial gains (losses)	72	(24)	48	(15)	5	(10)
Other comprehensive income	812	(104)	708	467	(48)	419

Appendix B - Australian specific paragraphs relating to “for profit” entities

The content of following Australian specific paragraphs have been retained in the revised AASB 101, however some references have changed.

Description	Current AASB 101	Revised AASB 101
Application paragraphs	Aus1.1 to Aus1.4 and Aus1.6 to 1.7	Aus1.1 to Aus1.4 and Aus1.6
Definitions	-	Aus7.1
Australian specific definitions	Aus11.1	-
<i>Corporations Act 2001</i> requires compliance with AASB 101, and if necessary, additional note disclosure for true and fair view	Aus13.1	Aus15.1
Statement of compliance with Australian Accounting Standards	Aus13.2	Aus15.2
Reference to statutory and other requirements applied in preparation	Aus13.3	Aus15.3
Disclosure of whether a report is a general purpose financial report or a special purpose financial report	Aus13.4	Aus15.4
Australian guidance on statement of IFRS compliance	Aus14.1 and Aus14.2	Aus16.1 and 16.2
Mandatory presentation in the English language	Aus45.1	Aus50.1
Auditor remuneration	Aus126.1 and 126.2	Aus138.1 and 138.2
Dividend franking and franking amount balance	Aus126.3 to Aus126.5	Aus138.3 to 138.5
Capital commitments and other expenditure commitments	Aus126.6	Aus138.6