

Financial INSIGHT

June 2011



Release of the final standards on consolidation, joint arrangements and disclosures

1. Overview

On 12 May 2011, the International Accounting Standards Board (IASB) completed its improvements to the accounting requirements for off balance sheet activities and joint arrangements by publishing a package of five new and revised standards. The completion of this project broadly aligns the IFRS and USGAAP accounting treatment for off balance sheet activities:

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IAS 27 *Separate Financial Statements* and
- IAS 28 *Investments in Associates and Joint Ventures*

It is expected that the Australian Accounting Standards Board (AASB) will release equivalent standards in the near future.

2. IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces all of the guidance on control and consolidation currently contained in IAS 27 and SIC-12 *Consolidation – Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (ie whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of returns.

3. IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification no longer exists). In addition, IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities.

- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (ie based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are required to be accounted for using the equity method in accordance with IAS 28.

In recognising their rights and obligations arising from the arrangement, the parties are required to focus on the substance of their relationship and how rights and obligations are shared rather than the legal structure of the joint arrangement.

4. IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

5. IAS 27 (2011) *Separate Financial Statements*

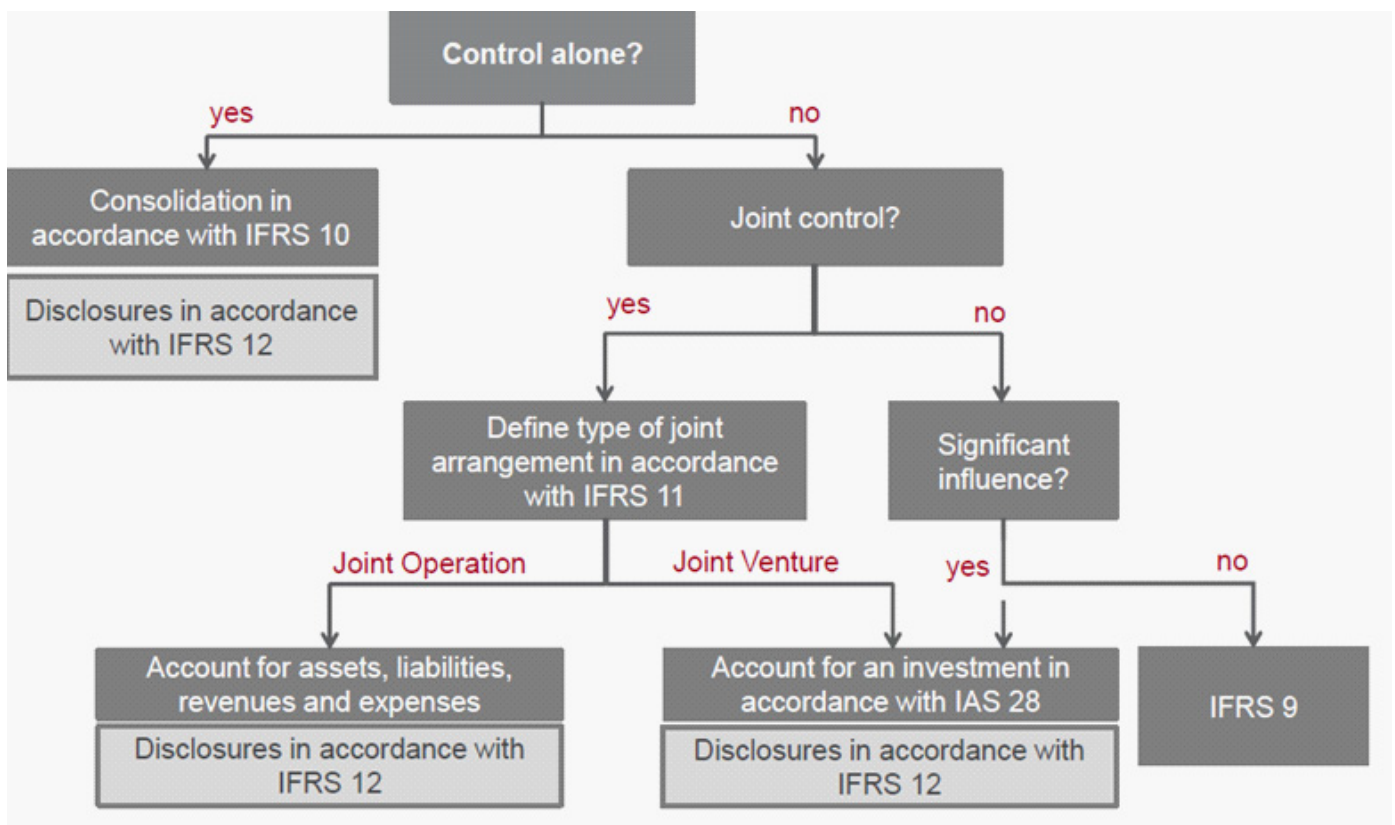
IAS 27 (2011) *Separate Financial Statements* includes the provisions on separate financial statements that are left almost unchanged over the control provisions of IAS 27 have been replaced with the new IFRS 10.

6. IAS 28 (2011) *Investments in Associates and Joint Ventures*

IAS 28 (2011) *Investments in Associates and Joint Ventures* now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Each of the five standards becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).

The interaction between the standards is summarised as follows (source: IFRS Foundation website).



7. Publication of the final standard on the fair value measurement

The IASB also issued, on the same day, IFRS 13 *Fair Value Measurement* (and the FASB an update to Topic 820), effective for annual periods beginning on or after 1 January 2013 (earlier application permitted). Without extending the use of fair value accounting (it applies when other IFRSs require or permit it), IFRS 13 provides a precise definition of fair value, a single source of fair value measurement and disclosure requirements for use across IFRSs.

RSM Bird Cameron will release a Financial INSIGHT for each of the new accounting standards in due course to provide you with greater detail on the changes and requirements.

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