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IN THE HEADLINES
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New cycle of improvements to IFRSs

Key proposals

- IFRS 1 applied again if most recent annual financial statements did not state compliance with IFRSs
- Servicing equipment classified as property, plant and equipment when used for more than one period
- IAS 12 applied when accounting for income tax on distributions and transaction costs
- Limited note disclosure when presenting third statement of financial position
- Comments due by 21 October 2011

Summary of the proposed changes

On 22 June 2011 the IASB[1] published ED/2011/2 *Improvements to IFRSs* as part of the annual improvements project cycle that began in 2009. The final amendments are expected to be published in March 2012 with a 1 January 2013 effective date; earlier application would be permitted.

The following is a summary of the proposed amendments contained in the exposure draft.

IFRS 1 *First-time Adoption of IFRSs*

Repeated application of IFRS 1

An entity would apply IFRS 1 when its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs. Application of IFRS 1 would be required even if the entity had previously applied IFRS 1 in a reporting period before the period reported in the most recent previous annual financial statements.

Capitalisation of borrowing costs

An entity that capitalised borrowing costs in accordance with its previous GAAP before its date of transition to IFRSs would be allowed to carry forward without adjustment the amount previously capitalised in the opening statement of financial position at the date of transition. Borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition would be accounted for in accordance with IAS 23 *Borrowing Costs*.

IAS 1 *Presentation of Financial Statements*

Clarification of requirements for comparative information

The requirements for providing comparative information would be clarified. This would include the concept of a 'required comparative period', which generally refers to a two-year period. Presenting additional comparative information voluntarily would not trigger a requirement to provide a comprehensive set of disclosures for such additional comparative period. For example, if an entity presents a third statement of comprehensive income voluntarily, then it would not be required to present also third statements of financial position, cash flows and changes in equity.

Related notes to the opening statement of financial position

Except for some minimum disclosures, an entity would not be required to present related notes to the opening statement of financial position.

Changes to reflect the updated conceptual framework

IAS 1 would be amended to reflect the wording of the *Conceptual Framework for Financial Reporting* that was issued in September 2010, mainly with regard to the objective of financial reporting.

IAS 16 *Property, Plant and Equipment*

Classification of servicing equipment

Servicing equipment would be classified as items of property, plant and equipment when they are used for more than one period. If the servicing equipment is used for less than one period, then it would be classified as inventory.

IAS 32 *Financial Instruments: Presentation*

Income tax consequences of distributions and transaction costs

IAS 32 would be amended to remove a perceived inconsistency between IAS 32 and IAS 12 *Income Taxes*. IAS 32 currently requires that distributions to holders of an equity instrument are recognised directly in equity net of any related income tax. However, IAS 12 requires that tax consequences of dividends generally are recognised in profit or loss unless certain conditions are met. IAS 32 would be amended so that it refers to IAS 12 for the accounting for income tax relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendments would be applied retrospectively.

IAS 34 *Interim Financial Reporting*

Interim financial reporting and segment information for total assets

IAS 34 would be amended to enhance consistency with the requirements in IFRS 8 *Operating Segments* for annual financial statements. It would be clarified that, for interim financial statements, total assets for a particular reportable segment need to be disclosed only when:

- the amounts are regularly provided to the chief operating decision maker; and
- there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

The amendments would be applied prospectively.

Abbreviations

1 IASB: International Accounting Standards Board

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