Energy and resources

Impacts of the annual improvements project

The International Accounting Standards Board (IASB) published its third annual improvements project in May 2010.

The annual improvements process is a timely and efficient way to make amendments to IFRS and address inconsistencies within or between standards and areas where the standards are unclear. In most cases the improvements do not change the meaning of the standards, but some amendments may result in changes to the way particular transactions or balances are accounted for by entities. These entities may find themselves applying changes to accounting policies resulting from the improvements project, as described in the table below.

The fourth round of annual improvements was published as an exposure draft in June 2011. This exposure draft will be finalised as a standard in March 2012 and apply to 2013/14 financial statements. Please talk to your usual PwC contact for information about these amendments or email ifrs.communications@au.pwc.com.

Third annual improvements project

Moderate impact

Standard	Amendment	Impact of the amendment	Effective date
IFRS 3 *(revised) Business combinations*	Upon issue of IFRS 3 (revised), amendments were made to IFRS 7 Financial instruments: Disclosure, IAS 32 Financial instruments: Presentation and IAS 39 Financial instruments: Recognition and measurement to remove contracts for contingent consideration from the scope of those standards. However, questions have arisen about which guidance entities should turn to when accounting for contingent consideration that arises from business combinations with acquisition dates that precede the application of IFRS 3 (revised).	Clarifies that entities should apply the rules in IFRS 3 (not IFRS 7, IAS 32 or IAS 39) to contingent consideration that arises from a business combination with acquisition dates that precede the application of IFRS 3 (revised). Removes diversity in practice – all entities would apply the requirements in IFRS 3 (revised) to contingent consideration that arises from business combinations that occur on or after 1 July 2010.	Annual periods beginning on or after 1 July 2010. Early application permitted.

Standard	Amendment	Impact of the amendment	Effective date
IFRS 3 *(revised) Business combinations*	IFRS 3 (para 19) allows the acquirer to measure the non-controlling interest at either fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets. However, questions have arisen about which components of equity qualify for this choice.	Clarifies that only entities with present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation can choose to measure the non-controlling interest at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest that are not entitled to a proportionate share of net assets would be measured on an alternative basis. For example: • The equity component of a convertible note would be measured in accordance with IAS 32 (that is, at the fair value of the instrument less the fair value of the liability component). • The share-based payment reserve that is classified in equity would be measured in accordance with IFRS 2 Share-based payment (that is, at the fair value at grant date).	Annual periods beginning on or after 1 July 2010. Early application permitted.
IFRS 3 *(revised) Business combinations*	IFRS 3 (revised) provides application guidance for the acquirer in scenarios where the acquirer replaces an acquiree's share-based payment award as part of a business combination. The guidance confirms that either all or a portion of a market-based measure of the replacement award should be included when measuring the cost of the business combination. However, questions have arisen about whether that guidance applies to unexpired share-based payment awards that form part of a business combination.	Clarifies that the application guidance in IFRS 3 (revised) applies to all unexpired share-based payment awards that form part of a business combination, regardless of whether the acquirer is obliged to replace the award. Entities that are acquirers in a business combination would include all or a portion of a market-based measure of the replacement award when measuring the cost of the business combination.	Annual periods beginning on or after 1 July 2010. Early application permitted.
IFRS 7 *Financial instruments: Disclosures*	The global financial crisis has increased the focus on entities' financial risk disclosures. The financial risk disclosure requirements have been in place for several reporting periods, however, questions	Clarifies seven disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures. Entities would be expected to disclose, by class of financial asset,	Annual periods beginning on or after 1 January 2011. Early application permitted.

Standard	Amendment	Impact of the amendment	Effective date
	have recently arisen about the meaning of some of the specific requirements.	their maximum exposure to credit risk: • without taking account of any collateral held; and • taking account of how any collateral held might mitigate the credit risk. The narrative disclosures included in the financial statements about the nature and extent of the risks arising from financial instruments would enhance the existing relevant quantitative disclosures on financial instruments. Entities would disclose the nature and carrying amount of only the collateral and other credit enhancements they have taken possession of or have called on at reporting date. They would no longer need to disclose the carrying amount of the financial assets whose terms have been renegotiated, where without the renegotiation those financial assets would have been past due or impaired.	
IAS 34 *Interim financial reporting*	IAS 34 requires disclosure of events and transactions that are significant in order for users of the financial statements to understand the changes of financial position and performance of the entity since the end of the last annual reporting period. However, questions have arisen about what sorts of events and transactions are considered 'significant'.	Clarifies the meaning of 'significant events and transactions' by providing examples of the events or transactions that would require disclosure. Helps entities apply the disclosure principles in IAS 34, particularly in relation to financial instruments and their fair values.	Annual periods beginning on or after 1 January 2011. Early application permitted.
IFRIC Interpretation 13 *Customer loyalty programmes*	IFRIC Interpretation 13 requires entities' customer award credits to be measured at fair value. However, questions have arisen about whether the fair value of award credits includes the proportion of the award credit that would not be redeemed by customers.	Clarifies that when measuring the fair value of an award credit, entities should take into account both the value of the award that would be offered to customers and the proportion of the award credit that is not expected to be redeemed by customers. For example, Entity A grants 100 award credits to customers. Entity A estimates the value of each award credit to be C1.25 and anticipates that 80 of the award credits will be redeemed by	Annual periods beginning on or after 1 January 2011. Early application permitted.

Standard	Amendment	Impact of the amendment	Effective date
		customers. The fair value of each award credit is C1 [being C1.25 x (80/100)]. Using the same example, the deferred revenue recognised would be C100 (100 x C1). Revenue would be recognised based on the number of award credits redeemed in each period.	

Low impact

Standard	Amendment	Impact of the amendment	Effective date
IAS 1 *Presentation of financial statements*	Currently entities present the components of changes in equity in the statement of changes in equity. However, questions have arisen about whether this information could be disclosed in the notes to the financial statements	Confirms that certain elements of the statement of changes in equity including the analysis of other comprehensive income by item can be presented in the statement of changes in equity or in the notes.	Annual periods beginning on or after 1 January 2011. Early application permitted.
IFRS 1 *First time adoption of International Financial Reporting Standards*	A first-time adopter of IFRS that makes changes to its accounting policies is exempt from the requirements of IAS 8 *Accounting policies, changes in accounting estimates* and errors in its first IFRS financial statements. However, questions have arisen about instances when IAS 8 does not apply. In particular, what (if any) requirements apply if an entity changes its accounting policies between the first interim financial statements it presents in accordance with IFRS and the first annual financial statements?	Amends IFRS 1 to state that IAS 8 does not apply both to the entity's selection of accounting policies at the date of transition to IFRS and to any changes to those policies made to the first annual IFRS financial statements. Further, the reconciliations required in IFRS 1 must be updated for changes the entity makes during the year of first time adoption in accounting policies and in transitional choices made in accordance with IFRS. Only impacts entities transitioning to IFRS.	Annual periods beginning on or after 1 January 2011. Early application permitted.
IFRS 1 *First time adoption of International Financial Reporting Standards*	IFRS 1 allows a first time adopter of IFRS to use a revaluation as deemed cost when a privatisation triggered a revaluation at or before the transition to IFRS. However, questions have arisen about whether the deemed cost revaluation is measured during the first IFRS reporting period.	Clarifies that entities may employ the 'deemed cost' exemption not only when the 'deemed cost' is measured before the date of transition to IFRS, but also if the 'deemed cost' is measured during the first IFRS reporting period. Only impacts entities transitioning to IFRS. However, there is a special provision for existing IFRS preparers to apply this exemption retrospectively or early adopt.	Annual periods beginning on or after 1 January 2011. Early application permitted.