

## Accounting Alert

*Analysis of the latest Accounting developments delivered to you via e-mail*

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### **Australian Accounting Standards Set for Major Overhaul**

Australia's international accounting standard convergence process moved forward significantly last week, when the Australian Accounting Standards Board (AASB) agreed its approach to convergence with International Accounting Standards Board (IASB) Standards by 2005.

There has been a considerable amount of uncertainty regarding the exact process that will occur, following the Financial Reporting Council and CLERP 9 announcements last year increasing the priority placed on harmonisation and convergence in Australia.

The AASB plan announced last week indicates that the AASB intends taking a "convergence" approach by adopting International Financial Reporting Standards (IFRS) as equivalent AASB Standards, with some possible minor amendments. It remains unclear at this stage how the AASB plan interacts with the CLERP 9 proposals to amend the *Corporations Act 2001* to require full compliance with IFRS.

#### **AASB Process**

Although subject to the IASB adhering to its timetable, the AASB intends to issue 35 new or revised AASB Standards by 31 March 2004. Consistent with the so-called "Big Bang" approach to harmonisation, the new AASB Standards will all be applicable from 1 January 2005.

*35 new or revised accounting standards to be issued in the next 12 months*

It is intended that the new/revised AASB Standards will converge with IFRS, however, as part of the due process, in addition to some specific issues on several IFRSs, the AASB will seek opinions on whether:

- converging with the IASB is in the best interests of the Australian economy
- there are any issues relating to not-for-profit entities, including not-for-profit public sector entities, that may affect the implementation of IFRS
- there are any regulatory or other issues arising in the Australian environment that may affect the implementation of IFRS

However, there is a strong political will for full convergence with IFRS, and it may be unlikely that anything but “word for word” adoption will result.

In order to meet the 2005 deadline, the AASB has indicated it intends to issue in:

- April/May 2003 – five exposure drafts
- June/July 2003 – four exposure drafts and eight new/revised Standards
- August/September 2003 – fourteen exposure drafts and two new/revised Standards
- October/November 2003 – five new/revised Standards
- December 2003 – two new/revised Standards
- February/March 2004 – eighteen new/revised Standards

In addition, the IASB Preface and Framework will need to be adopted in Australia, however, it is expected that the reporting entity concept will remain in some form.

### **Unanswered Questions**

Full convergence with IFRS will create many issues for Australian reporting entities. By adopting IFRS, current Australian accounting concepts will be radically changed, even at such fundamental levels as what constitutes “revenue”.

The potential benefits from globally accepted and high quality accounting standards are immense. However, the short-term pain for Australian entities may lead some to question whether the process is worthwhile.





The AASB will need to quickly address issues arising, particularly how convergence will impact opening accounting positions in 2005, and how non-reporting entities and public sector entities will be affected.

The process must also ultimately result in “full” convergence, not merely cherry-picking options or alternatives under IFRS as has occurred in the past, or adding additional requirements for Australian entities.

In some instances, the current Australian approach may be considered more developed or conceptually superior to IFRS requirements. Therefore it will be critical for the AASB to push for recognition of Australian views at the international level.

### **Action Points**

It is important that companies understand the changes proposed by the AASB convergence process, and communicate any issues identified to ensure all issues are addressed.

The following approach is suggested:

1. Maintain a ‘watching brief’ on IASB developments as they will also directly impact AASB Standards
2. Review exposure drafts as they are released by the AASB or IASB
3. Evaluate the impact on your organisation
4. Communicate issues to the AASB and/or IASB
5. Develop implementation plans for your organisation
6. Communicate the expected impact to stakeholders.

### **Further Information**

Full details of the timetable for convergence in Australia are available from the AASB website at [www.aasb.com.au](http://www.aasb.com.au)

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