

# Accounting alert

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

## International convergence update

### Three pending AASBs and EDs issued

Australian converged Standards will not be 'word for word' equivalents of IFRS, but will eliminate options and have additional requirements

Impact of IFRS convergence to be disclosed from 30 June 2004

The Australian Accounting Standards Board (AASB) has recently approved a number of pending standards and exposure drafts as part of the convergence process with International Financial Reporting Standards (IFRS).

This Accounting Alert provides an overview of these developments.

### Overview

The AASB has begun to finalise the accounting standards that will be applied by Australian entities in their first reporting period beginning on or after 1 January 2005.

This also means that the final approach to convergence has been determined, including the elimination of some choices in the Australian equivalent of International Accounting Standards, the inclusion of additional disclosures and requirements for not-for-profit entities. Additional guidance in existing standards will also be appended to AASB converged Standards where it is consistent with those Standards.

Notwithstanding this approach, Australian entities are still expected to be able to make an unreserved statement of compliance with IFRS. However, Australian entities will be faced with more rigorous and restrictive accounting standards than their international equivalents who can apply the 'unmodified' IFRS.

In addition, the AASB has decided to 'fast track' an accounting standard requiring the disclosure of the impacts of IFRS convergence in financial reports for half and full years ending on or after 30 June 2004.



## Pending accounting standards

### **Pending AASB 110 'Events After Balance Sheet Date'**

The requirements of Pending AASB 110 are largely consistent with Accounting Standard 1002 'Events Occurring After Reporting Date' and IAS 10 'Events After Balance Sheet Date'.

An area where the requirements of Pending AASB 110 will differ from existing Australian requirements is that entities will be required to prepare their financial report on a basis other than going concern (for e.g. liquidation basis) where an event renders the going concern assumption inappropriate after balance date. This means that the going concern basis cannot be applied in the financial report despite the fact that the entity may have been a going concern as at balance date. However, Pending AASB 110 requires the notes to the financial report to include financial statements prepared under the going concern basis.

Adjustments to financial reports required where going concern basis is considered inappropriate after balance date

### **Pending AASB 121 'The Effects of Changes in Foreign Exchange Rates'**

The requirements of Pending AASB 121 are generally consistent with IAS 21 'The Effects of Changes in Foreign Exchange Rates' and Accounting Standard AASB 1012 'Foreign Currency Translation', with the exception of the matters noted below.

One of the key impacts of Pending AASB 121 is that entities will have a free choice of presentation currency for their financial reports. The AASB has included an additional requirement to disclose the reason and justification for using a presentation currency other than the Australian currency.

Free choice of presentation currency permitted

Further, the Pending AASB 121 will require that on disposal of a self-sustaining foreign operation, the balance of the foreign currency translation reserve relating to that operation be recognised in net profit or loss ('recycled'). This approach is currently prohibited under existing Australian requirements.

Permits 'recycling' of foreign currency translation reserve on disposal of a self-sustaining foreign operation

### **Pending AASB 107 'Cash Flows Statement'**

The requirements of Pending AASB 107 are largely consistent with Accounting Standard AASB 1026 'Statement of Cash Flows' and IAS 7 'Cash Flows Statement'. However, Pending AASB 107 does not permit entities to present the statement of cash flows using the indirect method, as allowed under IAS 7. That is, the direct method, disclosing gross cash inflows and cash outflows, must be adopted consistent with the approach currently prescribed by AASB 1026.

No significant impact to existing Australian requirements.

Further, Pending AASB 107 contains additional disclosure requirements relating to credit-standby facilities - similar to that currently required under AASB 1026. Accordingly, the requirements of Pending AASB 107 are not expected to have a significant impact on existing Australian practice.

## New Exposure Drafts

Requirements of ED 126 largely consistent with Australian requirements

Removal of some disclosures requirements under AASB 1029

### **ED 126 'Request for Comment on IAS 34 Interim Financial Reporting'**

The AASB proposes to adopt the requirements of IAS 34 'Interim Financial Reporting' without any significant amendments.

The proposals of ED 126 are largely consistent with existing Australian requirements as prescribed in Accounting Standard AASB 1029 'Interim Financial Reporting'. Both international and Australian requirements consider interim periods to be discrete reporting periods where the same recognition and measurement principles are applied to interim and annual reporting periods. However, some of the existing disclosure requirements under AASB 1029 will be removed in the Australian converged standard.

Although there are no conceptual differences between IAS 34 and AASB 1029, the first time application of the Australian equivalent of IAS 34 would be a significant milestone for listed entities in Australia. This is because it would represent the first financial report presented in the 'new' IFRS format based on 'new' IFRS converged accounting policies.

Copies of ED 126 are available at [www.aasb.com.au](http://www.aasb.com.au), with the comment period closing on 31 December 2003.

### **ED 127 'Request for Comment on IAS 37 Provisions, Contingent Liabilities and Contingent Assets'**

The AASB proposes to adopt the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' without any significant amendments.

Several differences between IAS 37 and existing Australian requirements

Scope includes provision for the retirement and disposal of long-lived assets

There are several differences between IAS 37 and Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'. The main impacts of these differences in the Australian context are:

- provisions for the retirement or disposal of long-lived assets will be included in the scope of the Australian converged standard
- recoveries expected to settle a provision can only be recognised as an asset when it is virtually certain that it will be received
- provision for dividends cannot be recognised if it is publicly recommended but subject to approval by shareholders
- the unwinding of the discount on provisions will be classified as interest expense.

Copies of ED 127 are available at [www.aasb.com.au](http://www.aasb.com.au), with the comment period closing on 31 December 2003.

## Accounting alert

International convergence update

'Balance Sheet' approach to accounting for income taxes

There are expected to be many options for entities when accounting for income taxes

### ED 128 'Request for Comment on IAS 12 Income Taxes'

The AASB proposes to adopt the requirements of IAS 12 'Income Taxes' without any significant amendments. However, the AASB has proposed that the scope of the Standard includes the accounting for income tax equivalents so that the converged Standard will also apply to the public sector.

Further, the AASB has expressed its intention to provide additional implementation guidance on the application of IAS 12 to the Australian tax environment including the tax consolidation regime, capital gains tax regime, imputation system and foreign tax credit systems.

The requirements contained in IAS 12 is generally consistent with the revised AASB 1020 'Income Taxes' (issued in 1999), which is not yet operative in Australia. However, these proposals are conceptually different from existing Australian requirements prescribed in AASB 1020 'Accounting for Income Tax (Tax-effect Accounting)' issued in 1989. ED 128 and the revised AASB 1020 adopt the balance sheet approach for accounting for income tax as opposed to the income statement approach currently applied in Australia.

As these proposals are significantly different from existing Australian requirements, it is crucial that Australian entities assess their readiness for compliance with IAS 12 or the revised AASB 1020 now.

The IASB is also considering amendments to IAS 12 to more closely harmonise with the equivalent US requirements. Although these changes will not be mandatory for 2005, they may be able to be adopted early.

Therefore, unlike other areas of IFRS convergence, there are significant choices for entities when accounting for income taxes, including early adoption of the revised AASB 1020 prior to 2005, or potentially early adoption of a revised IAS 12.

When these choices are considered in light of accounting for the tax consolidation system and the options available under the forthcoming revised UIG Abstract 52 (see Accounting Alert 2003/13), the outcomes can be significantly varied and will need to be carefully considered.

Copies of ED 128 are available at [www.aasb.com.au](http://www.aasb.com.au), with the comment period closing on 31 January 2004.

### Feedback and assistance

We welcome your feedback on the matters covered in this Accounting Alert – please email your comments to [accounting\\_alerts@deloitte.com.au](mailto:accounting_alerts@deloitte.com.au).

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