

Accounting alert

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Pending Standards can be obtained from the AASB's web site: www.aasb.com.au

International Convergence Update

The Australian Accounting Standards Board (AASB) has recently approved and/or released a number of Pending Standards as part of the convergence process with International Financial Reporting Standards.

This *Accounting Alert* provides an overview of these developments.

Overview

The AASB has made available the following Pending Accounting Standards:

- AASB 1 'First-Time Adoption of Australian International Financial Reporting Pronouncements'¹
- AASB 101 'Presentation of Financial Statements'
- AASB 102 'Inventories'
- AASB 107 'Cash Flow Statements'²
- AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'
- AASB 110 'Events After the Balance Sheet Date'²
- AASB 114 'Segment Reporting'
- AASB 116 'Property, Plant and Equipment'
- AASB 121 'The Effects of Changes in Foreign Exchange Rates'²
- AASB 123 'Borrowing Costs'
- AASB 129 'Financial Reporting in Hyperinflationary Economies'
- AASB 130 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'
- AASB 132 'Financial Instruments: Disclosure and Presentation'³
- AASB 139 'Financial Instruments: Recognition and Measurement'⁴
- AASB 141 'Agriculture'

¹ Refer Accounting Alert 2003/06 for further details AASB 1.

² Refer Accounting Alert 2003/14 for further details on these Pending Standards.

³ Refer Accounting Alert 2004/02 for further details AASB 132.

⁴ Refer Accounting Alert 2004/03 for further details AASB 139.

In addition, the AASB has approved the following Pending Standards which have not yet been made available:

- AASB 111 'Construction Contracts'
- AASB 117 'Leases'
- AASB 133 'Earnings per Share'

and draft Pending Standard AASB 119 'Employee Benefits', subject to out-of-session discussion with members not in attendance.

Although approved, these Standards are not yet finalised and in accordance with their proposed application date cannot be early adopted prior to financial years beginning on or after 1 January 2005.

Copies of the Pending Standards are available at www.aasb.com.au.

Pending AASB 101 'Presentation of Financial Statements' and Pending AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'

Further disclosures required by Australian Standards in addition to IAS 1 and IAS 8

The requirements of Pending AASB 101 and Pending AASB 108 are largely consistent with IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The Pending Standards eliminate certain IFRS options and require certain additional disclosures:

- an Australian entity will not be allowed to depart from a requirement in a Standard or Interpretation, where they believe compliance with IFRS does not result in a fair presentation. Such departure is an allowed option under IFRS but is inconsistent with the Corporations Act in Australia
- the disclosures in AASB 1001 'Accounting Policies' concerning the basis on which the entity has prepared its financial report will be retained
- the disclosure of auditors remuneration, based on the current proposals in CLERP 9 will be required, and
- disclosure requirements in AASB 1034 'Financial Report Presentation and Disclosure' and AASB 1040 'Statement of Financial Position' concerning the length of an entity's economic cycle, economic dependency, dividends, franking credits and commitments will be required.

Some major differences between existing Australian standards and pending standards

In addition, there exist several major differences between the requirements of Pending AASB 101 and Pending AASB 108 and current Australian pronouncements as follows:

- correction of errors is to be made by retrospective restatement to the extent practicable.
- extraordinary items prohibited
- changes in accounting policy are to be applied retrospectively by adjusting the opening balance of retained earnings of the earliest period presented and restating prior periods. (Note, first-time adoption of IFRS and the resulting changes in accounting policy are accounted for in accordance with specific rules applicable to first-time adoption.)
- prohibited to classify liabilities as non-current where they are not renegotiated by financial reporting date
- where an undertaking or covenant is in breach, and no period of grace has been provided at reporting date, generally the liability becomes payable on demand. The amount will be classified as current even where the lender has waived or otherwise dealt with the breach subsequent to the reporting period end
- disclosure of known or reasonably estimable information relevant to assessing the possible impact of future changes in accounting policies due to accounting standards issued but not yet implemented.

Pending AASB 101 and Pending AASB 108 apply to reporting entities and, in addition, any other entities required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act.

Pending AASB 102 'Inventories'

Broker-dealers excluded from scope of AASB 102

The requirements of Pending AASB 102 are largely consistent with IAS 2 and AASB 1019 'Inventories'.

The major change to existing practice is that the Pending Standard excludes from its scope commodity broker-traders whose inventories will therefore be able to be carried at fair value less costs to sell with changes recognised in the profit or loss.

Pending AASB 114 'Segment Reporting'

Segment reporting applicable to all GPFs, other than not-for-profit entities

The requirements of Pending AASB 114 are largely consistent with IAS 14. Pending AASB 114 applies to all for-profit reporting entities. Not-for-profit entities are not required to comply with the Pending Standard. IAS 14 only requires disclosure where the entity has publicly traded debt or equity securities, or is in the process of issuing such securities.

Pending AASB 116 'Property, Plant and Equipment'

The requirements of Pending AASB 116 are largely consistent with IAS 16 'Property, Plant and Equipment' in respect of for-profit entities. The requirements of Pending AASB 116 in respect of not-for-profit entities are not consistent with IAS 16, but maintain some of the current Australian practice.

Pending AASB 116 is largely consistent with AASB 1015 'Acquisition of Assets', AASB 1021 'Depreciation' and AASB 1041 'Revaluation of Non-Current Assets', with the following major exceptions:

Offsetting increments and decrements within a class not permitted
Choice to use deemed cost based on current fair values on transition to IFRS
Costs of an asset would include restoration costs

- offsetting of increments and decrements within a class of assets will not be allowed, except for not-for-profit entities
- carrying forward of the revalued carrying amount on ceasing to use the fair value basis will not be permitted. However, AASB 1 allows the entity to use current fair values or certain prior revaluations as deemed cost at the date of transition
- cost of an item of property, plant and equipment to include the estimated costs of dismantling and removing the asset and restoring the site, to the extent it is recognised as a provision
- assets acquired by a for-profit entity through non-monetary government grants can be measured at nominal value
- additional guidance provided regarding the treatment of certain revenue realised during the construction phase or while getting an asset ready for use
- residual value of an asset would be reassessed every reporting date based on conditions at reporting date, and
- additional disclosures relating to revalued assets, including the requirements to provide equivalent historical cost information.

Residuals would be reassessed based on current conditions

Requirements for not-for-profit entities vary

Note, the requirements for not-for-profit entities vary in that not-for-profit entities:

- are required to initially measure assets acquired for no or nominal cost at their fair value, including those acquired through government grants
- are required to use the class of assets approach to revaluation, and
- that revalue a class of assets are exempt from the requirement to make cost disclosures.

The AASB also issued specific Australian guidance, not forming part of the Standard to assist users in the application of Pending AASB 116. This guidance covers the measurement of fair value, the frequency of revaluations, and the accounting treatment of spares for plant and equipment.

Pending AASB 129 'Financial Reporting in Hyperinflationary Economies'

Pending AASB 129 is not directly relevant to Australian entities

Pending AASB 129 establishes specific standards for entities reporting in the currency of a hyperinflationary economy and is consistent with IAS 29 'Financial Reporting in Hyperinflationary Economies'. As the Australian economy is not hyperinflationary, Pending AASB 129 is relevant only in translating the financial report of a foreign entity whose functional currency is the currency of a hyperinflationary economy, before translation into the presentation currency for inclusion in the financial report of an Australian entity. Pending AASB 121 'The Effects of Changes in Foreign Currency Exchange Rates' addresses the translation of financial reports from functional to presentation currency.

Pending AASB 130 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'

Pending AASB 130 retains some disclosures required by AASB 1032

The requirements of Pending AASB 130 are largely consistent with IAS 30 and AASB 1032 'Specific Disclosures by Financial Institutions'. However, Pending AASB 130 retains the following AASB 1032 disclosures not required by IAS 30:

- for each major category of interest-bearing asset and liability – the average balance, the amount of interest revenue or expense and the average interest rate
- the maturity analysis of the carrying amounts of specified assets
- specific information for each of the following classes of assets: restructured loans, real estate and other assets acquired through enforcement of security
- the nature and extent of fiduciary activities undertaken, including the aggregate amount of funds involved, classified according to their nature.

In addition, Pending AASB 130 requires greater accounting policy disclosures than was required by AASB 1032.

Pending AASB 141 'Agriculture'

Pending AASB 141 is largely consistent with AASB 1037

The requirements of Pending AASB 141 are largely consistent with IAS 41 'Agriculture'. However, there are differences between Pending AASB 141 and AASB 1037 'Self-generating and Regenerating Assets' as follows:

- pending AASB 141 is narrower in scope than AASB 1037 as it only addresses agricultural activities of biological assets
- removal of provisions dealing with leased biological assets
- introduction of a rebuttable presumption that the fair value of biological assets can always be measured reliably
- includes detailed guidance on the treatment of government grants relating to biological assets, and
- introduces new disclosures, including a movement schedule, details of commitments and risks, and information where the cost basis of measurement is used.

In addition, Pending AASB 141 maintains the following disclosure requirements not required by IAS 41 and currently required by AASB 1037:

- physical quantity categorised separately between plants and animals, and
- restrictions on the entity's capacity to use or sell biological assets.

Pending AASB 111 'Construction Contracts'

Limited changes expected

The requirements of AASB 111 are expected to be largely consistent with IAS 11 and AASB 1009 'Construction Contracts'. It is expected that Pending AASB 111 will not include the progress billings disclosure currently required by AASB 1009 and will include Australian Guidance material, not forming part of the Standard.

Pending AASB 117 'Leases'

The requirements of AASB 117 are expected to be largely consistent with IAS 17 and AASB 1008 'Leases'.

The most significant changes to existing practice are expected to be:

Possible recognition of investment property assets held under operating leases

- a property interest held under an operating lease can be classified as investment property provided that the rest of the definition of investment property is met and the lessee uses the fair value model in IAS 40 to account for the interest
- lessors are required to spread operating lease incentives across the period of the lease
- profits on sale and leaseback transactions involving an operating lease will be deferred and recognised over the lease term.

Pending AASB 133 'Earnings per Share'

AASB 133 is largely consistent with AASB 1027

The requirements of AASB 133 are expected to be consistent with IAS 33 'Earnings per Share' and this Standard is largely consistent with AASB 1027 'Earnings per Share'. The impact of recent revisions to IAS 33 and therefore Pending AASB 133 are that:

- for contracts that may be settled either in ordinary shares or in cash, at the issuer's option, it should be presumed that the contract will be settled in ordinary shares and the resulting potential ordinary shares should be included in the calculation of diluted EPS
- for contracts that may be settled either in ordinary share or in cash, at the holder's option, the more dilutive of cash settlement and share settlement should be used in calculating diluted EPS
- gains/losses on the settlement of preference shares to be deducted from earnings used in the EPS calculation.

Draft Pending AASB 119 'Employee Benefits'

Accounting for defined benefit plans is a major convergence impact area

Recognition of assets/liabilities in relation to funding of defined benefit plans

Corridor approach will not be allowed.

AASB 1028 guidance retained as implementation guidance

Draft Pending AASB 119 is expected to introduce some significant new recognition and measurement requirements in relation to defined benefit plans, in addition to certain other less significant changes. The differences between expected Pending AASB 119 and AASB 1028 'Employee Benefits' include:

- recognition of assets and liabilities related to the surplus or deficit on defined benefit plans being the difference between the fair value of plan assets and the present value of defined benefit obligations
- treatment of unwinding of discounts associated with employee benefits measured on the present value basis as interest, which may then be capitalised as a borrowing cost in certain circumstances
- revisions to disclosure requirements, particularly in relation to equity-based compensation benefits and defined benefit superannuation plans

The requirements of Pending AASB 119 are expected to be largely consistent with IAS19 except for:

- not allowing the so-called 'corridor approach' for the recognition of actuarial gains and losses in relation to a defined benefit liability
- requiring additional disclosure in respect of defined benefit plans about arrangements for employer contributions and funding
- in relation to defined benefit plans, specifying that an entity must take into account any taxes of the fund when determining the defined benefit obligation or asset, and
- including Implementation Guidance, not forming part of the Standard, currently contained in AASB 1028 in respect of non-monetary benefits, long service leave entitlements and termination benefits.

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.

For assistance in applying the requirements outlined in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to bruporter@deloitte.com.au.

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