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Accounting alert 2007/10 - May 2007 AASB meeting highlights

New standards, exposure drafts and finalisation of differential reporting/SME proposals

30 May 2007

The May 2007 AASB meeting ran over three days and resulted in many long-term projects reaching significant milestones. The Board approved an invitation comment which seeks to remove the 'reporting entity' concept in Australia. The revised standard on borrowing costs presents some interesting challenges and opportunities. Financial reporting by superannuation plans has the potential for wide-spread impact. There are also two new exposure drafts and an amending Standard for the not-for-profit sector to consider.



In this Accounting alert we focus on the following developments:

- **differential reporting and SMEs** – an invitation to comment is approved
- **revised borrowing costs standard** – what are the challenges and opportunities?
- **superannuation fund accounting** – esoteric debate or wide ranging impact?
- **public sector developments** – two new exposure drafts and an amending standard
- **other developments** – three proposed interpretations agenda rejection statements and the consideration of a number of IASB projects.

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Differential reporting and SMEs

Overview

The Board approved the Australian Preface to an Invitation to Comment on "A Proposed Revised Differential Reporting Regime for Australia and the IASB Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities" for publication.

A deadline of 1 September 2007 was agreed for Australian constituents to provide comments to the AASB on the proposed revised differential reporting regime for Australia and the IASB's ED. This is expected to provide enough time for the preparation of the AASB's own comments on the IASB's ED due by 1 October 2007.

In essence, the Australian invitation to comment is really two major but inter-related proposals:

- the proposal to implement a revised 'differential reporting' framework in Australia, eliminating the 'reporting entity' concept, discussed further below
- the IASB's own proposals for a simplification of the requirements of IFRS for so-called small and medium-sized entities (SMEs), discussed further in [Accounting alert 2007/03](#).

Differential reporting framework

The AASB tentative views on how the differential reporting framework would operate, as advised in previous Accounting alerts, are:

- all entities lodging financial reports or otherwise making their financial statements publicly available would prepare general purpose financial reports
- general purpose financial reports would be prepared by applying either the Australian equivalents to IFRSs or an Australian equivalent to the IFRS for SMEs, based on public accountability considerations and nominated size thresholds.

The nominated size thresholds discussed at the prior meeting were confirmed, namely:

Test - either	For-profit entities	Not-for-profit and public sector entities
Revenue exceeds	\$500 million	\$25 million
Assets exceed	\$250 million	\$12.5 million

Because the proposed test is differentiated based on whether an entity is considered 'for profit' or 'not-for-profit', the definition and determination of the difference between these two groups of entities will be critical.

The AASB considered whether to also propose some form of an 'employee numbers' test, but we understand this measure was considered irrelevant from the perspective of public accountability/interest that the nominated size thresholds seek to delineate.

We also understand that the AASB decided that these the differential reporting requirements and thresholds should also be applied by so-called 'grandfathered companies' that are exempt from lodging, but not preparing, financial reports. If these proposals proceed, grandfathered companies would be required to prepare general purpose financial reports under either full A-IFRS or an Australia SME Standard and the special purpose financial reports option would not be available.

Action plan

The AASB's invitation to comment is expected to be made available in the coming days once final changes resulting from the meeting are processed.

Because of the wide-ranging nature of the proposals, entities need to familiarise themselves with them to order to consider the potential impacts on their own financial reporting obligations.

Areas of focus may include:

- the business impact of the proposals – including the potential for more (or in some other cases less) disclosure, the potential for sensitive information to be disclosed and the effect on reporting obligations within corporate groups
- where the entity does not meet the nominated thresholds, whether it is beneficial to consider adopting A-IFRS instead of the Australian SME Standard
- the potential costs and benefits of implementing the proposals
- the need for flexible systems to cater for the changes as they are introduced, including the ability to source additional information that may be required to comply
- staff training and other resourcing issues
- flow on impacts in such areas as banking covenants, remuneration schemes and so on.

Entities are strongly encouraged to make their views on the proposals known to the AASB before the deadline of 1 September 2007. The tight timetable for comment on these proposals is exacerbated by the comment period coinciding with the year end reporting period for many entities. Accordingly, entities should plan to address these issues earlier rather than later.

More information

For more information, see the following:

- [Draft Australian Preface "Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities"](#) (from the AASB web site, PDF 115kb)
- [Accounting alert 2007/07](#) – initial quantification of the size test to be applied
- [Accounting alert 2007/06](#) – agreement to introduce a 'size test' for certain entities and consideration of how wholly-owned subsidiaries should be treated
- [Accounting alert 2007/04](#) – initial decisions regarding the implementation of the IASB SME proposals in the Australian context
- [Accounting alert 2007/03](#) – overview of the IASB's exposure draft of 'IFRS for SMEs' and our initial analysis of the proposals from the Australian perspective
- [Accounting alert 2006/09](#) – our analysis from mid-2006 on likely developments in differential reporting in Australia
- [IAS Plus Newsletter "IASB offers IFRS relief for SMEs"](#) (PDF 192kb)
- [IAS Plus page on the IASB SME Project](#) – a history of the IASB's decisions and deliberations in this long running project

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Revised borrowing costs standard

The AASB made a revised AASB 123 *Borrowing Costs*, equivalent to the recently revised IAS 23 *Borrowing Costs*.

The revised standard is applicable to annual reporting periods beginning on or after 1 January 2009 and, in an example of 'back to the future', requires the capitalisation of borrowing costs into qualifying assets.

Interestingly, in a manner reminiscent of pre-transition business combinations, the revised AASB 123 has specific transitional provisions that permit an entity to retrospectively apply its requirements from any date prior to or on initial application of the Standard.

Accordingly, the AASB's approval of the revised AASB 123 provides entities that currently expense borrowing costs with the following key decisions:

- whether the proposals in the revised Standard should be early adopted
- the optimal timeframe from which to retrospectively apply the revised Standard.

These decisions will depend on the nature of the entity's operations, the potential impacts on reported profits and so on.

More information about the revised Standard can be found in our [IAS Plus Newsletter "IASB Issues Revised Standard on Borrowing Costs"](#) (PDF 99kb).

The AASB also discussed the scope of the revised Standard, noting that borrowing costs are not required to be capitalised into the carrying amount of assets measured on the fair value basis.

For entities that are constructing assets that are carried at cost until completion and then measured on the fair value basis, the requirement to capitalise borrowing costs could be avoided by adopting the fair value basis during the construction phase (noting that the IASB is considering amendments to IAS 16/IAS 41 to make it clear that investment property under construction can be measured on the fair value basis). However, the fair value of a property under construction would probably implicitly consider notional capitalised borrowing costs in any case.

More information

For more information, see the following:

- [Draft Accounting Standard AASB 123 Borrowing Costs](#) (from the AASB web site, PDF 87kb)
- [IAS Plus Newsletter "IASB Issues Revised Standard on Borrowing Costs"](#) (PDF 99kb)

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Super fund accounting changes will affect everyone

The AASB again considered critical issues surrounding the recognition and measurement of assets and liabilities by superannuation plans, including the vexed issue of whether superannuation funds should be required to prepare consolidated financial statements, or whether investments should be measured on a fair value basis.

For instance, if a superannuation plan has a controlling interest in an entity that has a mining operation, should the superannuation plan be required to separately present each asset and liability related to the mining operation in its financial statements and if so how should such amount be measured, or should a net amount representing the fair value of the investment in the mining entity be presented?

A revised paper on the issues discussed will be developed for consultation with constituents. The AASB also met with superannuation industry representatives and analysts to discuss key issues to be addressed.

The AASB's project on financial reporting by superannuation plans is both complex and important, particularly given the growing superannuation industry in Australia and the likely 'once in a generation' amendment to accounting in this area. The difficulties issues faced by the AASB are evident in the long time frame being tentatively considered, with final proposals not expected before 2009. However, constituent consultation is expected during the development of the proposals and affected entities should closely monitor the AASB's project.

More information

For more information, see the following:

- [Draft Consultation Paper on the AASB's proposed requirements in relation to the consolidation of subsidiaries by superannuation entities](#) (from the AASB web site, PDF 222kb)
- [Accounting alert 2007/06](#) – discussions on consolidation by superannuation funds
- [Accounting alert 2007/04](#) – discussions from the previous AASB meeting on accounting by superannuation funds
- [Accounting alert 2006/12](#) – earlier AASB discussions on how superannuation funds should account for assets and liabilities

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Public sector developments

New standards and proposals

The AASB decided to issue the following pronouncements:

- AASB 2007 -5 *Amendment to Australian Accounting Standard – Inventories Held for Distribution by Not-for-profit Entities*, which amends the requirements in AASB 102 *Inventories* in respect of not-for-profit entities to measure inventory on the basis of cost, adjusted where applicable for any loss of service potential
- ED 155 *Financial Reporting by Whole of Governments* – this ED was approved excluding the illustrative example
- an Exposure Draft on *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*.

More information

For more information, see the following:

- [Draft ED XXX *Financial Reporting by Governments*](#) (from the AASB web site, PDF 263kb)
- [Draft ED XXX *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*](#) (from the AASB web site, PDF 339kb)

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Other developments***Proposed agenda rejection statements***

The AASB's Interpretations Agenda Committee has finalised the following three proposed agenda rejection statements:

- financial instruments – valuation of electricity derivatives
- financial instruments – meaning of delivery
- non-reporting entities – applicability of standards.

These proposed agenda rejection statements will be published on the AASB web site for a comment period of 30 days.

The proposed agenda rejection statements related to financial instruments have also been considered by IFRIC. We would not support the AASB extending the meaning, effect or scope of the IFRIC agenda rejection statements in the Australian context.

Other matters

The Board also discussed the following:

- the AASB's submission to the IASB on the proposals the IASB's ED *Proposed Amendments to IAS 24 'Related Party Disclosures' – State-controlled Entities and the Definition of a Related Party* (the draft submission is available at www.aasb.com.au, PDF)
- an update on the IASB's Intangible Assets project
- a report of IPSASB March 2007 meeting
- a discussion of the IASB's Discussion Paper *Preliminary Views on Insurance Contracts*, including the Insurance Roundtables being held in Sydney and Melbourne on 7 and 8 June respectively
- a meeting with the AASB's Consultative Group

More information on above topics can be obtained from the [AASB Action Alert](#) (PDF 35kb) for the meeting.

The next meeting of the AASB is scheduled for 27-28 June 2007.

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