

# Accounting Alert

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

**Alert # 2002/16**

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*Full harmonisation to occur for reporting periods commencing on or after 1 January 2005*

*The requirement for comparatives means IAS is effective 1 January 2004*

## **Australia's Transition to International Accounting Standards**

As detailed in *Accounting Alert* issue 2002/09, the Financial Reporting Council released a bulletin formalising its support for the adoption in Australia of International Accounting Standards (IAS) by 1 January 2005. CLERP 9 also recommends adoption of IAS by 2005.

### **Effect of FRC Announcement and CLERP 9**

The Financial Reporting Council (FRC) and CLERP 9 announcement has increased the priority being placed on harmonisation and the speed of convergence in Australia. CLERP 9 proposes that the body of International Accounting Standards Board (IASB) standards be adopted in Australia for reporting periods beginning on or after 1 January 2005. However, as a result of the need to present prior period comparatives, the transitional calculations will commence for reporting periods beginning on or after 1 January 2004.

For Australian accounting standards, which do not have an international counterpart, for example, concise financial reports, general and life insurance, and extractive industries, it is expected that these will be retained until IASB standards are developed.

As indicated above, the Australian Accounting Standards Board (AASB) has amended its convergence policy, the key features of which now include:

- IASB EDs and Interpretations are to be issued in Australia at the same time as they are issued by the IASB,

*Corporations Act to require  
adoption of IAS*

- IASB standards are to be accepted without modification in Australia other than to ensure that the standards are appropriate in the Australian legal and institutional environment and to consider application issues for not-for-profit entities, and
- Active participation in the IASB processes.

As outlined in *Accounting Alert* 2002/12, the actual process by which IAS's are to be issued in Australia is still unclear. However, the CLERP 9 announcement clearly proposes that financial statements prepared under the Corporations Act will be prepared in accordance with IASB standards. Therefore it would appear likely that all IAS's will be adopted in Australia and entities will be able to claim full compliance with IAS.

Recent exposure drafts and invitations to comment that have been issued under the AASB's harmonisation policy include:

- ED 103 "Investment Properties (and corresponding amendments to AASB 1021 and AASB 1041)",
- ED 104 "Impairment of Assets",
- Invitation to Comment "Proposed Improvements to International Accounting Standards and their Impacts on Australian Standards"<sup>1</sup>,
- Invitation to Comment "Proposed Improvements to International Accounting Standards IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement"<sup>1</sup>,
- ED 107 "Request for Comment on IASB ED 1 First-Time Application of International Financial Reporting Standards", and
- ED 108 "Request for Comment on IASB ED 2 Share-based Payment".

The change in status of the invitations to comment reflects the convergence strategy the AASB adopted since the FRC announcement, which states the AASB will issue future IASB EDs in Australia for comment by Australian constituents at the same time as they are issued by the IASB.

<sup>1</sup> In August 2002 the AASB stated that an Australian exposure draft, following the finalisation of the IASB due process, will not be released for these invitations to comment. The AASB therefore encouraged AASB constituents to respond to the invitation to comment if they wished to influence the IASB outcome and help the AASB evaluate the subsequent adoption in Australia.

*Differences between IASs and Australian Accounting Standards, big and small, will create significant work for entities*

*Develop a plan for transition to IAS*

*Transition to IAS will affect all areas of business*



### **What Does this Mean for You?**

The impact of the transition to IAS will vary from entity to entity, depending on structure, operations, transactions and historical accounting policies. Although Australia has been undertaking a harmonisation policy for several years, there are still a number of significant differences between IAS and Australian Accounting Standards. For many entities there will be a myriad of minor differences, which may require significant work to identify.

The adoption of IAS in Australia will not only change the accounting policies used in the preparation of financial reports, but will also impact other areas of business.

To prepare for a successful transition to IAS, we recommend entities start developing a plan for transition incorporating all the consequential changes, not only those related to financial reporting. The following areas will be affected and should be included in any plan for transition.

#### ***Communicating the effect***

Entities need to consider the best way to explain and communicate the effect of transition on future performance and financial position.

#### ***Forecasts/internal reporting***

Statistical and financial data will be affected by the transition to IAS as the recognition, measurement and classification criteria for the elements may change. This may affect return on investments, gearing and other financial ratios.

#### ***Measurement of performance***

The indicators of performance measurement may change, as the base data will now be determined on a different basis. The cause of these changes and the reason why the indicators alter will need to be understood and communicated to those who utilise the information.

#### ***Management compensation***

If accounting data serves as the basis for management remuneration, modifications of contracts may be necessary to ensure the bases continue to provide the appropriate incentives.



### ***Mergers and acquisitions***

When assessing the impact of future acquisitions, the calculation of future profit impacts will change under IAS and goodwill may be calculated differently. Consideration may also be need to given to past mergers/acquisitions where they contain clauses that include price revisions based on accounting data.

### ***Specific clauses in contracts***

Contracts (eg. loans, trading contracts, etc) containing clauses which make reference to accounting data (eg. debt covenants) may need to be reviewed as such references may no longer be appropriate in an IAS regime.

### ***Statutory accounts***

The move to IAS will clearly change the recognition and measurement criteria applied in financial reports given the differences that exist between IAS and Australian Accounting Standards. In addition, the presentation and disclosure requirements of IAS vary from those required by Australian Accounting Standards. In preparing an entity's first set of IAS financial statements, consideration will need to be given to the changed format and to the processes in place to collect the required data.

### ***Information systems***

The impact of the information needs of reporting under IAS on accounting and operating systems, needs to be analysed and system changes identified and implemented. Systems that will be affected include internal and external reporting systems (including consolidation procedures), accounting systems, and operating systems (eg. treasury management, project management, human resources).

This analysis should also consider the capacity of systems to reprocess historical data, as this may be necessary on the transition to IAS.

### ***Training***

Staff affected by IAS changes should be appropriately trained on a timely basis. Training may vary from a general level of training, such as highlighting differences between Australian GAAP and IAS, particularly in the early stages of the project, to specialised training on topics like financial instruments.

*Planning the transition to IAS requires all areas of the business to be analysed*



### **Other**

Changed accounting policies, and the consequential impact on financial performance and position, may have other impacts on the way the business is conducted. These impacts will vary from business to business and could include matters such as the Treasury Operations as new accounting policies may affect the method of reporting securitisations and hedging positions.

The priority given to each of the above matters will vary between entities. Accordingly we recommend that consideration be given to the following steps in performing a high level assessment of the areas most affected and/or where most effort is required:

- Initial awareness program,
- Initial analysis of potential IAS adjustments which will be required to restate opening comparatives at 1 January 2004
- Analysis of risk areas,
- Consideration of whether sufficient and appropriate resources exist, and
- Identification of areas which require general/specific training.

As government, the FRC, and the AASB provide further guidance on the strategy to implement IAS, the above activities should progress as soon as possible into a complete transition plan.

Entities should constantly monitor the progress of IASB and AASB projects as they may introduce new changes, which have a significant impact on the entity.

### **What Are We Doing and How Can We Help?**

Consistent with a number of the recent *Accounting Alerts* issued by Deloitte, we will continue to issue regular updates on the status of and developments in AASB and IASB projects, and issue other publications containing an in depth analysis of specific IAS topics. For reference purposes, copies of all previous *Accounting Alerts* are available on the Deloitte website at [www.deloitte.com.au](http://www.deloitte.com.au). We are in a position to assist our clients to successfully manage the risks and exploit the planning opportunities associated with the transition to IAS. The areas where we could assist include:

- scoping study,
- project management and resources,
- training,
- detailed analysis of significant areas, and
- process redesign.

For assistance in identifying the issues surrounding the transition to IAS, please contact your local Deloitte office.



### Other Resources Available

Deloitte maintains a website, [www.iasplus.com.au](http://www.iasplus.com.au), which contains detailed information on international accounting standards and developments, as well as some country specific updates. The site is updated on a regular basis and includes:

- summaries of the current IASB Standards and Interpretations,
- summaries of current IASB projects including details of the current expected timetable,
- summaries of IASB meetings posted shortly after discussion are held,
- IAS model financial statements,
- IAS presentation and disclosure checklists,
- newsletters on IAS related topics,
- details of the history and structure of the IASB,
- details on worldwide use of IAS,
- publications available for download including “IAS in Your Pocket” and “International Accounting Standards: A Practical Guide to Financial Reporting”,
- links to accounting related websites, and
- and plenty more.

The AASB has published an in depth analysis of the differences between international and Australian standards. The *Australian Convergence Handbook* is available on the AASB website at [www.aasb.com.au](http://www.aasb.com.au).

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