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Accounting Alert

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

June 2004 Financial Reporting Update

This Accounting Alert provides an outline of some of the significant areas that may impact financial reporting for annual reporting periods ending 30 June 2004.

Overview

The information in this Accounting Alert is designed as a series of consideration points to assist entities when producing their financial reports at 30 June 2004.

Major topics include new and/or revised Accounting Standards, Urgent Issues Group Abstracts, and other information. These issues are not intended to be exhaustive, nor cover all matters relevant to financial reporting, rather, provide a guide to some of the significant matters to take into account when producing financial reports at 30 June 2004.

Director and Executive Disclosures by Disclosing Entities

(Refer to Accounting Alert 2004/01)

- AASB 1046 "Director and Executive Disclosures" only applies to disclosing entities and is effective for annual reporting periods ending on or after 30 June 2004.

New disclosure requirements for director and executive remuneration

- The standard replaces the existing requirements of remuneration banding for directors and executives and the disclosure of aggregate remuneration to all directors of each entity in the economic entity.
- Requires disclosure of the components of remuneration for each director of the entity preparing the financial report and at least five executives in the economic entity with the greatest authority.

Guidance on determining the value of equity instruments

- Requires the value of equity instruments provided to these directors and executives to be measured at grant date and allocated on a pro rata basis to disclosed remuneration between the grant date and vesting date. It does not mandate the expensing of equity based remuneration.
- The Deloitte Model Financial Reports provide detailed examples of the new disclosures (available at www.deloitte.com.au).

Disclosing the Impacts of Adopting Australian Equivalents to IFRS

(Refer to Accounting Alert 2004/09)

- AASB 1047 "Disclosing the Impacts of Adopting Australian Equivalents to IFRS" applies to interim and annual reporting periods ending on or after 30 June 2004 and ceases to apply once an entity has adopted Australian equivalents to IFRS.

Narrative disclosures only required at 30 June 2004

- In respect of financial reports for annual and interim periods ending on or after 30 June 2004, the following disclosures are required:
  - An explanation of how the transition to Australian equivalents to IFRSs is being managed; and
  - A narrative explanation of the key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRSs.
- In respect of financial reports for annual and interim periods ending on or after 30 June 2005, the following disclosures are required:

Known or reliably estimable information about impacts required at 30 June 2005

  - Any known or reliably estimable information about the impacts on the financial report had it been prepared using Australian equivalents to IFRSs; or
  - If the impacts are not known or reliably estimable, a statement to that effect.
- The standard does not mandate, but strongly encourages, entities to make these disclosures at 31 December 2004 as well.
- The AASB considers that entities in the extractive industries could reasonably state that the impacts of the transition to Australian equivalents to IFRS are not yet determinable in relation to matters previously covered by AASB 1022 "Accounting for Extractive Industries".

Accounting for the Tax Consolidation System

(Refer to Accounting Alert 2003/12)

- The Urgent Issues Group revised the requirements of UIG 52 "Accounting for the Tax-Consolidation System" in December 2003 to clarify the accounting for tax consolidations, particularly in relation to the 1989 Standards. UIG 52 applies from 'implementation date'.
- The Abstract applies to all reporting entities applying the tax consolidation system for all or part of the reporting period, for reporting periods ending on or after 4 December 2003.

Partial restatement to be required, and only where resetting of tax values has occurred

- Where tax values have not been reset on an entity joining a tax consolidated group, no adjustment to deferred tax balances will be permitted - existing consolidated deferred tax balances will be recognised by the head entity on adoption of the tax consolidation system.
- Where tax values have been reset:
  - Deferred tax balances are remeasured by reference to the differences between consolidated carrying amounts and reset tax values and are recognised by both the head entity and the economic entity on adoption of the tax consolidation system
  - The recognition of deferred taxes that would not be 'traditionally' tax-effected under the superseded AASB 1020 (eg: non-tax depreciable intangibles) are prohibited
  - Adjustments to past acquisition entries would neither be required or prohibited for any newly recognised deferred taxes that effectively arise from fair value adjustments recognised for past acquisitions – entities will therefore have a choice whether to remeasure goodwill
- Permits entities that have already reported using the May 2003 abstract to continue to do so on a go-forward basis.

Directors' and Executives' Remuneration Disclosures in the Directors' Report

Updated guidelines for disclosing the value of options in the directors report

- On 28 June 2004, ASIC issued updated guidelines on how Australian listed companies should disclose the value of options when disclosing directors' and executive officers' emoluments in annual directors' reports of listed companies under section 300A of the Corporations Act 2001.
- Under the guidelines, the option values will be disclosed in line with the requirements of the new accounting standard AASB 1046 "Director and Executive Disclosures by Disclosing Entities".

ASX Listing Rule Amendments

(Refer to Accounting Alert 2002/19)

Appendix 4E to be lodged within 2 months

- Appendix 4E to be lodged with ASX within 2 months after the end of the reporting period for financial years ending on or after 30 June 2004.

New corporate governance requirements apply from 1 July 2003

- New corporate governance requirements apply from 1 July 2003, including a requirement that the Top 500 listed companies have an audit committee – Top 300 listed companies must comply with best practice guidelines in relation to composition, operation and responsibility of the audit committee.

Other Matters

Disclose most recent information re employee sponsored defined benefit superannuation plans

- UIG 54 "Defined Benefit Superannuation Disclosure by Employers" applies to all reporting entities for reporting periods ending on or after 7 August 2003. The UIG considered that in most circumstances more recent information about the amounts of the vested benefits, plan asset values and in some cases accrued benefits, than that disclosed in the most recent financial report of a defined benefit superannuation plan, is likely to be available to an employer that is the sponsor of a defined benefit superannuation plan. The UIG agreed that disclosures reflecting the more recent information should be made in the employer's financial report.

Guidelines for depreciating road earthwork assets

- UIG 55 "Accounting for Road Earthworks" applies to all reporting entities for reporting periods ending on or after 4 May 2004. The Abstract requires that the depreciable amount of road earthwork assets that have limited useful lives shall be allocated on a systematic basis over their useful lives, based on best estimates of those useful lives. Difficulty in estimating the useful life of an asset does not justify non-depreciation of the asset. Road earthworks assets that are assessed as not having a limited useful life shall not be depreciated.

ASIC to review compliance with AASB 1047 for all listed companies

Australian equivalents to IASB Standards and Interpretations for 2005 are now finalised

ASIC Financial Reporting Surveillance Program

- ASIC will continue to review the financial report of each publicly listed entity at least once every four years.
- ASIC will review any entity that receives a qualified audit report because the independent auditor believes that the financial report does not fully comply with all accounting standards.
- ASIC will also review the financial reports of all publicly listed companies for compliance with AASB 1047. ASIC expects that key policy differences will be stated clearly and in enough detail to inform report users about the specific impact on accounting policies. A list of the Standards or areas of difference by itself, without some indication of the nature of the impact of the change, will not be sufficient.

International Convergence

- The AASB announced on 30 June 2004 that all the Pending versions of Australian equivalents to IASB Standards and Interpretations had been posted to the AASB web site as Pending Standards and Pending Interpretations.
- The AASB expects to formally make the Standards and formally approve the Interpretations at its meeting on 15 July 2004.
- There are expected to be further changes to these Standards and Interpretations where international changes need to be adopted so that Australian entities can make an unreserved statement of compliance with IFRSs. Many of the proposed changes are likely to only be applicable in the Australian context from 2006, although early adoption may be permissible. This will provide additional choices for entities on their transition to IFRSs.

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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