

# Accounting alert

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

## Options within A-IFRS

Australian equivalents to International Financial Reporting Standards (A-IFRS) came into effect on 1 January 2005 and as such many entities are already in their first A-IFRS reporting period or, if not, they will commence shortly. The transition to A-IFRS allows 'free choice' in go-forward accounting policies which do not need to be consistent with superseded A-GAAP policies. Certain A-IFRS provide explicit choice between alternative accounting policies to be applied in preparing financial reports. This Accounting alert provides a summary of the recognition and measurement options in A-IFRS applicable to a for-profit entity reporting under the Corporations Act 2001. The first-time adoption options (AASB 1) and ongoing accounting policy choices have been documented. The ongoing accounting policy choices need to be made at the date of transition and unless there is a first-time adoption exemption will need to be applied retrospectively.

*Policy choices may have a significant impact on future profits*

Policy choices may have a significant impact on future profits and in many instances transition to A-IFRS will represent the only time when these options are available. Therefore careful consideration of these options should be made as part of any A-IFRS transition project.

## 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)

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 +61 (0) 3 9208 7490 or by email to [bruporter@deloitte.com.au](mailto:bruporter@deloitte.com.au)



## Share-based payments (AASB 2)

### First-time adoption

#### Equity-settled share-based payments

Where the fair value of an equity-settled share-based payment, determined at the measurement date, has been publicly disclosed an entity may:

1. retrospectively apply AASB 2 'Share-based Payment'
2. apply AASB 2 only to equity-settled share-based payment transactions granted after 7 November 2002, or
3. apply AASB 2 only to equity-settled share-based payment transactions granted after 7 November 2002 that vest after the later of the date of transition and 1 January 2005.

#### Cash-settled share-based payments

For cash-settled share-based payments an entity may elect to:

1. retrospectively apply AASB 2
2. apply AASB 2 only to cash-settled share-based payment transactions settled after the date of transition, or
3. apply AASB 2 only to cash-settled share-based payment transactions settled after 1 January 2005.

## Business combinations (AASB 3)

### First-time adoption

An entity may elect to:

1. restate all business combinations recognised prior to the date of transition
2. restate all business combinations post a specific date (earlier than the date of transition), or
3. not restate business combinations recognised prior to the date of transition.

This exemption applies equally to historical acquisitions of subsidiaries, associates and interests in joint ventures.

## Insurance contracts (AASB 4/AASB 1023/AASB 1038)

### First-time adoption

#### Comparative financial information

An entity may elect to:

1. apply AASB 4 'Insurance Contracts', AASB 1023 'General Insurance Contracts' and AASB 1038 'Life Insurance Contracts' in the comparative period and therefore the date of transition for AASB 4, AASB 1023 and AASB 1038 purposes is the beginning of the comparative period, or
2. not to apply AASB 4, AASB 1023 and AASB 1038 in the comparative period and therefore the date of transition for AASB 4, AASB 1023 and AASB 1038 purposes is the beginning of the first A IFRS reporting period.

## Exploration and evaluation of mineral resources (AASB 6)

### First-time adoption

#### Comparative financial information<sup>1</sup>

An entity may elect to:

1. apply AASB 6 'Exploration for and Evaluation of Mineral Resources' in the comparative period and therefore the date of transition for AASB 6 purposes is the beginning of the comparative period, or
2. not to apply AASB 6 in the comparative period and therefore the date of transition for AASB 6 purposes is the beginning of the first A IFRS reporting period.

<sup>1</sup> AASB 1 currently provides an exemption from the requirement to provide comparative disclosures. The intention of the IASB was to provide the above wider exemption, that is, not only providing the exemption from comparative disclosures but also providing an exemption from the recognition and measurement requirements for the comparative period. The IASB has recently issued an exposure draft which proposes to amend the Standard to clarify this exemption.

### **Ongoing accounting policy choices**

#### **Exploration and evaluation expenditure**

For each area of interest, expenditures incurred in the exploration for and evaluation of mineral resources may be:

1. expensed as incurred, or
2. partially or fully capitalised, and recognised as an exploration and evaluation asset where certain conditions are met.

#### **Subsequent measurement**

Subsequent to initial recognition, exploration and evaluation assets shall be measured either at:

1. cost less accumulated depreciation/amortisation, or
2. a revalued amount less accumulated depreciation/amortisation, with changes in the revalued amount recognised in an asset revaluation reserve, in accordance with AASB 116 or AASB 138 depending on the classification of the asset.

## **Inventories (AASB 102)**

### **Ongoing accounting policy choices**

#### **Measurement options for certain producers and commodity brokers**

Inventories held by entities that are producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products may be measured at:

1. the lower of cost and net realisable value (NRV), or
2. NRV in accordance with well established practices in these industries, where changes in NRV are recognised in profit or loss each period.

Inventories held by commodity brokers may be measured at:

1. the lower of cost and NRV, or
2. fair value less costs to sell, where changes in fair value less costs to sell are recognised in profit or loss each period.

#### **Cost formulas**

The cost of inventories shall be assigned, for all inventories having a similar nature and use to the entity, by using either the:

1. first-in, first-out basis, or
2. weighted average cost formula.

## **Property, plant and equipment (AASB 116)**

### **First-time adoption**

#### **Deemed cost**

An entity must determine the cost of an item of property, plant and equipment (PPE) at the date of transition based on either:

1. true A-IFRS (historical) cost
2. fair value at the date of transition, or
3. a previously booked revaluation that was broadly comparable to fair value at the date of the revaluation or was performed through the use of a general or specific price index to a cost broadly comparable to cost or depreciated cost under A-IFRS.

#### **Decommissioning, restoration and similar liabilities to be capitalised**

In calculating the amount of decommissioning, restoration and similar liabilities that can be capitalised into the cost of PPE at the date of transition, an entity may choose to either:

1. retrospectively apply UIG 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities', or
2. measure the liability as at the date of transition in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', estimate the amount that would have been included in the cost of the related asset when the liability first arose by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have been applied for the liability over the intervening period, and calculate the accumulated depreciation on that amount, as at the date of transition, on the basis of the current estimated useful life.

## Ongoing accounting policy choices

### Subsequent measurement

Subsequent to initial recognition, each class of PPE shall be measured either at:

1. cost less accumulated depreciation, or
2. a revalued amount less accumulated depreciation, with changes in the revalued amount recognised in an asset revaluation reserve.

### Revaluation policy – accumulated depreciation restatement

Where an asset is revalued, accumulated depreciation at the date of the revaluation may be either:

1. restated proportionately with the change in the gross carrying amount of the asset so that the net carrying amount of the asset after the revaluation equals its revalued amount, or
2. eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

### Revaluation policy – derecognition of revaluation reserve

The asset revaluation reserve in respect to an item of PPE may be:

1. transferred directly to retained earnings when the asset is retired or disposed of
2. transferred directly to retained earnings as the asset is used (depreciated) by the entity, or
3. left as a reserve balance indefinitely.

## Employee benefits (defined benefit plans) (AASB 119)

### First-time adoption

#### Early adoption

Two versions of AASB 119 exist. AASB 119 (revised December 2004) may be either:

1. applied to annual reporting periods beginning on or after 1 January 2006, or
2. early adopted and applied to annual reporting periods beginning on or after 1 January 2005.

#### Restatement of 'corridor'

Where AASB 119 (revised December 2004) is early adopted and an entity elects to adopt the 'corridor' approach with respect to accounting for defined benefit plans, an entity may elect, for all plans, to:

1. retrospectively apply AASB 119 (revised December 2004) from the inception of the plan, or
2. recognise all cumulative actuarial gains and losses at the date of transition, that is, reset the 'corridor' to zero.

## Ongoing accounting policy choice

### Defined benefit plans

Where AASB 119 (revised December 2004) is early adopted, actuarial gains and losses associated with a defined benefit plan may be accounted for either:

1. in full through profit or loss
2. in full directly in retained earnings, or
3. under the 'corridor' approach (or any method that is faster than the 'corridor' approach).

## The effects of changes in foreign exchange rates (AASB 121)

### First-time adoption

#### Goodwill

Entities may elect to treat goodwill arising in a business combination before the date of transition as:

1. an asset of the entity and therefore expressed in the entity's functional currency, or
2. an asset of the acquiree and therefore expressed in the acquiree's functional currency.

This option may be applied either to all business combinations prior to the date of transition (whether restated or not) or just to those that have been restated.

### Foreign currency translation reserve

With respect to the calculation of the foreign currency translation reserve (FCTR), an entity may elect at the date of transition to:

1. reset the FCTR to zero, or
2. recalculate the FCTR retrospectively in accordance with A-IFRS.

### Ongoing accounting policy choice

#### Presentation currency

An entity may elect to present its financial report in any currency, but will need to disclose the reason and justification if not using the Australian currency.

## Borrowing costs (AASB 123)

### Ongoing accounting policy choice

#### Qualifying assets

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset may be either consistently:

1. capitalised as part of the cost of the qualifying asset, or
2. expensed in the period incurred.

## Separate financial statements (AASB 127)

### Ongoing accounting policy choice

#### Subsequent measurement

Where an entity has at least one subsidiary, in the parent entity financial statements, investments in subsidiaries, jointly controlled entities and associates, not held for sale, may be measured either at:

1. cost, or
2. in accordance with AASB 139 'Financial Instruments: Recognition and Measurement'.

The same accounting policy shall be applied for each category of investments.

## Investments in associates/interests in joint ventures (AASB 128/AASB 131)

### Ongoing accounting policy choices

#### Venture capitalists

Venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds, may account for investments in associates or interests in jointly controlled entities by:

1. equity accounting under AASB 128 'Investments in Associates' or AASB 131 'Interest in Joint Ventures', or
2. designating as 'fair value through profit or loss' under AASB 139<sup>2</sup>.

#### Relief from equity accounting

An entity whose owners do not object to the equity method not being applied, whose debt or equity instruments are not publicly traded and are not in the process of being issued into a public market, and the ultimate Australian or any intermediate parent prepares and lodges consolidated financial statements in accordance with A IFRS may account for investments in associates and interests in jointly controlled entities at either:

1. cost, or
2. in accordance with AASB 139<sup>2</sup>.

<sup>2</sup> If investments in associates or interests in jointly controlled entities are accounted for under AASB 139 in the consolidated financial statements, they must be accounted for consistently in the entity's own financial statements.

## Financial instruments (AASB 132/AASB 139)

### First-time adoption

#### Comparative financial information

An entity may elect to:

1. apply AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 in the comparative period and therefore the date of transition for AASB 132 and AASB 139 purposes is the beginning of the comparative period, or
2. not to apply AASB 132 and AASB 139 in the comparative period and therefore the date of transition for AASB 132 and AASB 139 purposes is the beginning of the first A IFRS reporting period.

#### Compound financial instruments

Entities that have previously issued compound financial instruments, where the liability component is no longer outstanding at the date of transition, may elect to:

1. retrospectively apply AASB 132 and as a result reallocate amounts between contributed equity and retained earnings, or
2. not separately identify or measure the different components of the compound financial instrument in accordance with AASB 132 and therefore no adjustments to equity will be required.

#### Classification of financial assets and financial liabilities

With respect to the classification of financial assets and financial liabilities as 'fair value through profit or loss' or 'available for sale', the designation may be done either at the date of:

1. initial recognition, or
2. transition.

#### Derecognition of financial assets

Where an entity obtained the information needed to apply AASB 139 to financial assets and financial liabilities derecognised as a result of a prior transaction at the time of initially accounting for those transactions, an entity may apply the derecognition requirements of AASB 139 either:

1. retrospectively from a date of the entity's choosing, or
2. prospectively from 1 January 2004.

### Ongoing accounting policy choices

#### Classification of financial assets and financial liabilities

An entity may classify individual financial assets and financial liabilities:

1. strictly according to the AASB 139 definitions, or
2. electing certain designation options:
  - a. financial asset or financial liability may be designated on initial recognition at 'fair value through profit or loss' provided certain conditions are met
  - b. any financial asset, other than one held for trading, may be designated on initial recognition as 'available for sale'.

#### Regular way contracts

A contract for the purchase or sale of financial assets that require delivery of the assets within the time frame generally established by regulation or convention in the market place concerned (sometimes called a 'regular way' contract) may be accounted for using either:

1. trade date accounting, or
2. settlement date accounting.

The method used should be consistently applied for all purchase and sales of financial assets that belong to the same category of financial assets.

#### Hedge accounting

An entity may economically hedge certain transactions however an entity may elect to:

1. put in place the systems and processes required to qualify for hedge accounting, or
2. not adopt hedge accounting and therefore apply the relevant Standard to the measurement of the components of the economic hedge. For example, all changes in the fair value of derivatives used as hedging instruments should be recognised in profit and loss.

### Hedges of firm commitments

A hedge of the foreign currency risk of a firm commitment may be accounted for as either a:

1. fair value hedge, or
2. cash flow hedge.

### Cash flow hedges of forecasted transactions

If a cash flow hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gain or loss deferred in equity may either:

1. remain in equity and be reported in profit or loss in a manner that is consistent with the period in which the asset or liability affects profit or loss, or
2. be reclassified into the initial cost or other carrying amount of the asset or liability.

The chosen policy should be consistently applied to all such transactions.

## Intangible assets (AASB 138)

### First-time adoption

#### Deemed cost

An entity may determine the cost of an intangible asset at the date of transition based on either:

1. true A-IFRS (historical) cost
2. fair value at the date of transition, or
3. a previously booked revaluation that was broadly comparable to fair value at the date of the revaluation or was performed through the use of a general or specific price index to a cost broadly comparable to cost or depreciated cost under A-IFRS.

The last two options are only possible where the intangible asset meets the recognition criteria of AASB 138 'Intangible Assets' and the intangible asset would normally qualify for revaluation, that is, an active market exists.

### Ongoing accounting policy choice

#### Subsequent measurement

Subsequent to initial recognition, all intangible assets shall be measured either at:

1. cost less accumulated amortisation, or
2. a revalued amount less accumulated amortisation, with changes in the revalued amount recognised in an asset revaluation reserve, but only where fair value can be determined by reference to an active market.

## Investment property (AASB 140)

### First-time adoption

#### Deemed cost

An entity may determine the cost of an item of investment property at the date of transition based on either:

1. true A-IFRS (historical) cost
2. fair value at the date of transition, or
3. a previously booked revaluation that was broadly comparable to fair value at the date of the revaluation or was performed through the use of a general or specific price index to a cost broadly comparable to cost or depreciated cost under A-IFRS.

### Ongoing accounting policy choices

#### Subsequent measurement

Subsequent to initial recognition, all investment property shall be measured either at:

1. cost less accumulated depreciation, or
2. fair value, with changes in fair value recognised in profit or loss.

### Operating leases of investment property

A property interest held by a lessee under an operating lease may be:

1. classified as an investment property provided that the property would otherwise meet the definition of an investment property and the lessee uses the fair value model to account for the interest, or
2. accounted for as an operating lease under AASB 117 'Leases'.

## Early adoption options for UIG interpretations

### First-time adoption

The UIG has issued several UIG Interpretations that apply to periods beginning after 1 January 2005 that may be early adopted for annual reporting periods beginning on or after 1 January 2005. At the date of this letter, the following UIG Interpretations qualify for early adoption but further UIG Interpretations may be issued between now and your first A IFRS financial report which may also be early adopted:

- UIG 2 'Members' Shares in Co-operative Entities and Similar Instruments'
- UIG 3 'Emission Rights'
- UIG 4 'Determining Whether an Arrangement Contains a Lease'
- UIG 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'.

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