Deloitte.

Alert # 2005/14
Issued 16 November 2005

Accounting alert

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

Are you ready for increased A-IFRS disclosures

Internal reporting packages may need to be amended in order to efficiently collate information

With 31 December 2005 looming, many companies are nearing the end of their Australian equivalent to International Financial Reporting Standards (A-IFRS) transition projects. Most projects have to date focussed on the differences in measurement and recognition, however entities will potentially have to significantly rework their financial report in 2005 in order to comply with A-IFRS. Consequently amendments to internal reporting packages will also need to be made in order to collate the necessary information as effectively as possible. Many of the disclosure requirements are quite onerous and will introduce subjective information into the financial report.

Model financial reports and presentation and disclosure checklists are available at www.deloitte.com.au

This accounting alert provides an overview of some of the key new disclosures that will be required under A-IFRS. These include a new primary statement, sources of uncertainty and judgement, increased reconciliations and much more information on certain types of transactions. It does not purport to be a comprehensive checklist. For further details on disclosure requirements reference can be made to the Deloitte Consolidated Model Financial Report or Deloitte Special Purpose Model Financial Report, as applicable, and the A-IFRS presentation and disclosure checklist, available from www.deloitte.com.au

We would encourage preparers to take advantage of the wholesale redraft that will inevitably be required under the transition to A-IFRS to think about the general structure of their financial report, and how that structure might be improved. Preparers should aim to arrive at a presentation that best presents the results and financial position in the entity's particular circumstances and communicates information to the users of the financial report in a manner that is clear, unambiguous and informative.

General purpose vs special purpose financial reports

SPFRs prepared under the Corporations Act must include all cash flow related disclosures

The reporting entity concept is continuing in Australia with a general purpose financial report (GPFR) required to comply with the disclosure requirements of all A-IFRS. Special purpose financial reports (SPFR), prepared by non-reporting entities, need only comply with the disclosure requirements of those A-IFRS considered necessary to enable the financial report to meet the special purpose needs of the users. However a SPFR prepared under the Corporations Act 2001 must at a minimum comply with the disclosure requirements of AASB 101 'Presentation of Financial Statements', AASB 107 'Cash Flow Statements' and AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'. Consequently the level of disclosure changes will depend on the type of financial report prepared but all entities are likely to be affected.

Note however that the definition of reporting entity has also changed. This is particularly relevant for subsidiaries of foreign listed entities that will no longer automatically be deemed to be reporting entities.

Financial statements

May be problems in practice with trying to present a comprehensive statement of changes in equity as a primary statement purely from a page formatting perspective

The financial report must include a new primary statement, the statement of changes in equity/statement of recognised income and expense. Essentially entities have the choice of presenting as a primary statement either:

- a statement of recognised income and expense (excluding transactions with equity holders), with a comprehensive reconciliation of all movements in equity presented in the notes, or
- a comprehensive statement of all changes in equity.

However where an entity elects to recognise actuarial gains and losses with respect to a defined benefit plan outside the profit or loss, an entity must present a statement of recognised income and expense.

Key sources of uncertainty and judgement

Several accounting standards include disclosure requirements with respect to critical accounting judgements and key sources of estimation uncertainty.

AASB 101 provides the general requirement for the disclosure of the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Examples of judgements that should be disclosed include whether:

- financial assets are held to maturity investments
- substantially all the risks and rewards of ownership of financial assets and lease assets are transferred to other entities
- in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue
- the substance of the relationship between the entity and a special purpose entity (SPE) indicates that the SPE is controlled by the entity.

Key judgements and assumptions may provide users much more information about an entities operations

AASB 101 also requires disclosure of the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year. Such disclosures will need to be considered for all assets and liabilities, however specific requirements in other Standards result in certain items automatically being included, for example:

- AASB 136 'Impairment of Assets' requires key assumptions used to measure recoverable amount of each cash generating unit (CGU), or group of CGUs, that include goodwill or indefinite life intangible assets, with specific disclosure of certain inputs into the recoverable amount calculation
- AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' requires the disclosure of the expected timing and uncertainty of the future sacrifice of economic benefits to settle provisions
- AASB 138 'Intangible Assets' requires disclosure of the reasons supporting the assessment of an intangible asset as having an indefinite useful life.

Reconciliations

A number of new or more detailed reconciliations are required under A-IFRS which provide additional information to users, including:

Half-year financial reports must include additional reconciliations of profit and equity for the comparable half-year

- various reconciliations of the entity's reported financial position and financial performance at the date of transition and for the comparative period from superseded AGAAP to A-IFRS
- reconciliation of movement in goodwill
- reconciliation of movement in each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets
- comparative reconciliation of movement in property, plant and equipment
- separate disclosure of the increase in the carrying amount of a class of discounted provisions which is due to the passage of time and the effect of any change in the discount rate
- reconciliation of movement in biological assets.

Business combinations

Disclosures apply equally to business combinations effected during the period and to those effected after the reporting date but before the financial report is authorised for issue

For each business combination that was effected during the period, or occurred after the reporting date but before the financial report is authorised for issue unless such disclosures would be impracticable, the following must be disclosed:

- when equity instruments are issued or issuable as part of the cost, the number of equity instruments issued or issuable

- the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities and, unless disclosure would be impracticable, the carrying amounts of each of those classes, determined in accordance with A-IFRS, immediately before the combination. If such disclosure would be impracticable, that fact should be disclosed, together with an explanation of why this is the case
- the amount of any 'excess over cost' recognised in profit or loss, and the line item in the income statement in which the excess is recognised

Many of these disclosures are also required in a half-year financial report

- a description of the factors that contributed to a cost that results in the recognition of goodwill, including a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably, or a description of the nature of any 'excess over cost' recognised in profit or loss
- the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless disclosure would be impracticable. If such disclosure would be impracticable, that fact should be disclosed, together with an explanation of why this is the case. In addition, unless impracticable, the revenue and profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the reporting period had been the beginning of that period.

Impairment of assets

Management information will need to disaggregate impairment losses by segment

Significantly more disclosures are required with respect to the recognition or reversal of an impairment of an asset or CGU. In addition to information regarding the events and circumstances that lead to the recognition or reversal of an impairment loss, with reference to the related asset or CGU, the amounts recognised will need to be separately disclosed for each primary reportable segment.

Income taxes

Deferred taxes

Disclosures are required for the following items, in respect of each temporary difference, and in respect of each type of unused tax losses and unused tax credits:

- the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented

Breakdown required of deferred tax balances

- the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet.

Additional disclosures are also required where deferred taxes arising from temporary differences have not been recognised and where an entity has recognised a deferred tax asset and the entity has suffered a loss in either the current or preceding period.

Income tax expense

The financial report must disclose the major components of income tax expense with disclosure of the amounts charged or credited to equity.

Other

Other transactions that might require more extensive disclosures, where applicable, include:

- share-based payments
- cost equivalent of revalued carrying amount of property, plant and equipment
- discontinued operations/non-current assets held for sale
- defined benefit superannuation plans
- investment property
- agriculture
- subsidiaries, associates and joint ventures.

Preparers will need to monitor developments up to the issue of the financial report

Early adoption will eliminate the need for these disclosures

Potential impact of changes in standards and interpretations not yet effective

When a new Standard or Interpretation has been issued and is not yet effective, and the entity has not early adopted the new Standard or Interpretation, the entity is required to disclose:

- that fact
- known or reliably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity's financial report in the period of initial application.

At present the following Standards and Interpretations have been issued with an application date post 31 December 2005 which if not early adopted will need to be considered for the above disclosure:

- AASB 7 'Financial Instruments: Disclosure' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038)
- AASB 2004-3 'Amendments to Australian Accounting Standards (AASB 119)' (Actuarial gains and losses, group plans and disclosure)
- AASB 2005-1 'Amendments to Australian Accounting Standards (AASB 139)' (Cash flow hedge accounting of forecast intragroup transactions)
- AASB 2005-4 'Amendments to Australian Accounting Standards (AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038)' (The fair value option)
- AASB 2005-5 'Amendments to Australian Accounting Standards (AASB 1 & AASB 139)' (UIG 4 and UIG 5)
- AASB 2005-6 'Amendments to Australian Accounting Standards (AASB 3)' (The definition of 'contributions by owners')
- AASB 2005-9 'Amendments to Australian Accounting Standards (AASB 4, AASB 1023, AASB 139 & AASB 132)' (Financial guarantee contracts)
- UIG 4 'Determining whether an arrangement contains a lease'
- UIG 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds'

  UIG 6 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment.'

Feedback and assistance

We welcome your feedback on the matters covered in this accounting alert – please e-mail 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 +61 (0) 3 9208 7490, or by e-mail to bruporter@deloitte.com.au

'Deloitte' refers to the Australian partnership of Deloitte Touche Tohmatsu and its subsidiaries. Deloitte, one of Australia's leading professional services firms, provides audit, tax, consulting, and financial advisory services through around 3000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

Deloitte is a member of Deloitte Touche Tohmatsu (a Swiss Verein). As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other, related names. Services are provided by the member firms or their subsidiaries and affiliates and not by the Deloitte Touche Tohmatsu Verein.

Liability limited by a scheme approved under Professional Standards Legislation.

Confidential – this document and the information contained in it are confidential and should not be used or disclosed in any way without our prior consent.

© Deloitte Touche Tohmatsu. November, 2005. All rights reserved. am_mel_11.05_015935

Member of
Deloitte Touche Tohmatsu