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Accounting alert 2006/14

ED 151 - a step in the right direction

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On 30 November 2006, the AASB released Exposure Draft ED 151 *Australian Additions to, and Deletions from, IFRSs* for comment. A copy of ED 151 can be [downloaded from the AASB web site](#) (PDF 100kb).

ED 151 is part of the AASB's recent decision to make Australian accounting requirements the same as IFRS in respect of for-profit entities. To this end, the exposure draft proposes reinstating various accounting policy options that were previously deleted in making the existing suite of A-IFRS, and removing certain Australian-specific disclosures.

In this alert, we explore:

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What does it all mean?

Deloitte has been a long-time supporter of 'full' convergence with IFRS. Currently what we have is often referred to as 'one way convergence'. In other words, entities reporting under A-IFRS can (hopefully) state full compliance with IFRS, but entities complying with IFRS cannot state full compliance with A-IFRS.

Whilst the proposals in ED 151 go a long way towards achieving 'two way convergence', we continue to have some concerns as outlined below:

- I ED 151 does not propose any transitional provisions and there is some risk that the introduction of options under A-IFRS may effectively be restricted, even though this is not the outcome under IFRS
- I a number of unique Australian recognition and measurement requirements are proposed to be retained
- I the proposals do not appear to address the numerous minor wording and terminology changes adopted by the AASB in its initial promulgation of A-IFRS
- I the proposals do not consider other Australian requirements such as domestic Interpretations and other intrinsic materials
- I the on-going debate around the differential reporting and the 'reporting entity' concept are not addressed in these proposals.



Many entities may find the text of ED 151 very difficult to follow. We would have preferred to have seen a comprehensive 'marked up' version of the various affected Accounting Standards to allow a more comprehensive and easy to understand analysis to be conducted.

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What are the main proposals?

Options in accounting and disclosure

ED 151 proposes to allow entities the option to:

- | prepare cash flow statements using the 'indirect' method. Whichever method adopted, the reconciliation between profit and operating cash flows will no longer be required
- | use proportionate consolidation to account for their jointly controlled entities
- | account for government grants as deferred income or as a deduction from the related asset. The choice affects the timing of recognition of the grant as income
- | account for government grants in the form of a transfer of a non-monetary asset for use by the recipient at fair value or nominal amount
- | disclose government grants related to income as a credit in profit and loss or as a deduction from the related expense
- | disclose a reconciliation between the average effective tax rate and the applicable tax rate instead of a reconciliation between tax expense and accounting profit multiplied by the tax rate. Also, the ED proposes eliminating the additional disclosures related to the treatment of exchange differences on deferred taxes

Reducing the magnitude of additional disclosures

ED 151 also proposes that entities no longer be required to make Australian specific disclosures relating to:

- | defined benefit plans, including the surplus or deficit determined under AAS 25 *Accounting for Superannuation Plans* and details about funding
- | associates and joint ventures
- | earnings per share calculations, including disclosure of an additional EPS number where there has been a major capital restructuring.
- | the reason and justification for not using the Australian currency as the presentation currency
- | the financial effect of a change in accounting policy made in the second half of the financial year on the previously reported half-year results/position
- | interim financial reporting – including the financial effect of subsequent events, details about dividends proposed or declared, and labelling of the interim financial report
- | for biological assets, their nature, estimate of physical quantity and details of restrictions on their use or sale
- | disclosure of credit standby arrangements and a summary of used and unused loan facilities as required by AASB 132 *Financial Instruments: Disclosure and Presentation*
- | for financial institutions, disclosures including interest analysis, contractual maturities, impairment losses and fiduciary duties.

Entities contemplating changing their accounting policies should note the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* which only permits entities to change their accounting policies where the change would result in the financial report providing reliable and more relevant information.

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What are some of the implications?

Accounting for investments in subsidiaries, associates and joint ventures

Some of the potentially more significant proposals in ED 151 are the amendments to AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

In summary, the AASB proposes to:

- l insert paragraphs from the equivalent IFRS standards which allow certain entities to be excluded from the requirement to present consolidated financial statements
- l to align the definition of 'separate financial statements' to be the same as under IFRS

However, a new Australian-specific requirement will be inserted that will mean that an ultimate Australian parent will be required to prepare consolidated financial statements where the parent or the group is a reporting entity.

Example

The implications of original AASB amendments to the application and definitions in IAS 27, IAS 28 and IAS 31 in formulating the equivalent Australian Standards are sometimes not yet well appreciated. For instance, the AASB amendments to the definition of 'separate financial statements' meant that an entity within a group that did not have subsidiaries but which had an associate or jointly controlled entity was effectively required to adopt equity accounting in its financial statements, even though under the equivalent IFRS standards, the investment could be measured at cost or fair value. The AASB proposals will mean that these entities will be able to prepare separate financial statements and adopt the cost or fair value measurement for their investments in the same manner as their international counterparts.

Exploration and evaluation expenditure

As noted in [Accounting Alert 2006/12](#), we remain concerned that the AASB has decided to retain the Australian-specific recognition and measurement requirements for exploration and evaluation expenditure in AASB 6 *Exploration for and Evaluation of Mineral Resources*.

Because of the strict requirements imposed on Australian entities by the approaches adopted in AASB 6 that are not also included in IFRS 6, Australian entities may in some cases be disadvantaged when compared to their international counterparts.

There is nothing in AASB 6 that is not in complete compliance with IFRS 6, meaning that the holy grail of making an 'unreserved statement of compliance with IFRS' will not be jeopardised by the form and content of AASB 6.

However, compliance with IFRS 6 will not automatically mean compliance with AASB 6, causing sometimes subtle difficulties for Australian entities in areas such as:

- l impairment being assessed at the 'area of interest' level, whereas international counterparts may be able to test impairment of exploration and evaluation at a much higher level, possibly even as wide as an entire segment
- l Australian subsidiaries and associates of foreign parents where group policies require a method that is not in accordance with the 'area of interest' method
- l Australian entities raising capital in foreign markets where industry participants currently adopt

- non-AASB 6 compliant policies, i.e. other than the 'area of interest method'
- I foreign resource-based companies listed on the Australian Stock Exchange and reporting using 'pure' IFRS will have more options in approaches adopted and may appear to have more favourable financial reporting outcomes
- I newly incorporated entities in Australia will be forced to adopt the 'area of interest' method even though equivalent entities in other jurisdictions applying IFRS will not.

In our view, it may be better for the AASB to remove the Australian-specific recognition and measurement requirements from AASB 6. The resources industry is one that operates and competes for capital on a truly global scale and it would be better for Australian entities to operate under the same requirements as their international counterparts. In a globally competitive environment, it is important that Australia's competitive advantages in resources are not undermined by Accounting Standard requirements.

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Having your say on the revisions

Now is the time to voice your support for the AASB's proposals, but also to air any concerns you may have. Submissions on the exposure draft are due by 31 January 2007. Deloitte Australia will make a submission and we welcome your comments and feedback as we formulate our submission. Your comments can be sent to accounting_alerts@deloitte.com.au.

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Links

[Accounting Alert 2006/13 Treasury's Corporate and Financial Services Regulation Review Proposals Paper](#)
[Accounting Alert 2006/12 Outcomes of the November 2006 AASB meeting](#)
[Accounting Alert 2006/09 A quiet revolution at the AASB?](#)

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