

Accounting Alert

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

*Alert # 2003/09
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Further Convergence Exposure Drafts Released

The Australian Accounting Standards Board (AASB) has released three further Exposure Drafts (EDs) as part of the convergence process with International Financial Reporting Standards (IFRS) namely:

- ED 118 “Request for Comment on IAS 11 Construction Contracts”
- ED 119 “Request for Comment on IAS 14 Segment Reporting”
- IAS 120 “Request for Comment on IAS 16 and IPSAS 17 Property, Plant and Equipment”

This *Accounting Alert* provides an outline of the proposals in these documents.

Overview

In general, the three EDs do not propose any significant changes to current Australian practice, other than in relation to the revaluation of property, plant and equipment. Under IFRS, where property, plant and equipment is carried at fair value, increments and decrements must be accounted for separately for each asset, rather than allowing offsetting within a class. This difference could cause reported profit under IFRS to be lower than under current Australian GAAP.

Copies of the EDs are available at www.aasb.com.au, with the comment period closing on 30 September 2003.

*Revaluation increments and
decrements would be tracked on an
asset by asset basis*

ED 118 “Request for Comment on IAS 11 Construction Contracts”

Australian Standard Affected

- AASB 1009 “Construction Contracts”.

Major Changes to Existing Practices

- No major changes to existing practices are anticipated.

ED 119 “Request for Comment on IAS 14 Segment Reporting”

Australian Standard Affected

- AASB 1005 “Segment Reporting”.

Proposed Departure from IFRS

- Extension of segment reporting disclosure requirements to all general purpose financial reports, other than not-for-profit entities. Under IFRS, disclosure is only required where the entity has publicly traded debt or equity securities, or is in the process of issuing such securities.

Segment reporting applicable to all GPFs, other than not-for-profit entities

ED 120 “Request for Comment on IAS 16 and IPSAS 17 Property, Plant and Equipment”

Australian Standards Affected

- AASB 1015 “Acquisition of Assets”.
- AASB 1021 “Depreciation”.
- AASB 1041 “Revaluation of Non-Current Assets”.

Offsetting increments and decrements within a class not permitted

Choice to use deemed costs based on current fair values on transition to IFRS

Costs of an asset would include restoration costs

Residuals would be reassessed based on current conditions

Major Changes to Existing Practices

- Offsetting of increments and decrements within a class would not be allowed, except for not-for-profit entities.
- Carrying forward of the revalued carrying amount on ceasing to use the fair value basis would not be permitted. A voluntary exemption within IFRS 1 is the ability to use current fair values or certain prior revaluations as deemed cost at the date of transition. (Note that the Australian Standard converged with IFRS 1 is yet to be issued – see *Accounting Alert 2003/06* for more information.)
- Cost of an item of property, plant and equipment to include the estimated costs of dismantling and removing the asset and restoring the site, to the extent it is recognised as a provision,
- Government grants can be deducted from the carrying value of a related asset. Assets acquired through non-monetary government grants can be measured at nominal value.
- Additional guidance regarding the extent to which certain revenue realised during the construction phase or while getting an asset ready for use, can be capitalised.
- Residual value of an asset would be reassessed every reporting date based on conditions at reporting date.
- Additional disclosures relating to revalued assets, including the requirements to provide equivalent historical cost information.

Proposed Departure from IFRS

- Elimination of the choice to restate accumulated depreciation on the revaluation of an asset.

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.