

Accounting Alert

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

**Alert # 2003/06
Issued 7 July 2003**



First-Time Adoption of IFRS

On 16 June 2003, IFRS 1 'First-Time Adoption of International Financial Reporting Standards' was issued by the International Accounting Standards Board (IASB), to be effective for financial years beginning on or after 1 January 2004. An equivalent converged AASB Standard has yet to be issued due to perceived copyright and legal issues, however it is expected that the Standard will be issued in Australia with an effective date of 1 January 2005 in line with the Australian Accounting Standards Board's strategy for adoption of International Financial Reporting Standards (IFRS) by 2005.

This *Accounting Alert* provides an overview of the transitional provisions that will apply when Australia adopts converged AASB Standards in 2005, and some of the issues that will arise, assuming IFRS 1 is adopted in substantially the same format in Australia.

A detailed *Discussion Paper* will be made available on our website by 11 July 2003, providing a detailed analysis of the transitional requirements arising under IFRS 1 and IFRS in general.

Overview

IFRS 1 provides the 'framework' to be adopted when an entity first applies IFRS. In the Australian context, the IFRS 1 requirements will effectively apply on first time adoption of all IFRS converged AASB Standards.

The expected requirements of the converged AASB Standard are as follows:

- IFRS converged AASB Standards will need to be retrospectively applied when first adopted, with certain limited mandatory and optional exceptions briefly discussed below; and

*Full retrospective application of IFRS required
with limited exceptions*

Comparative periods restated therefore effective application as early as 1 January 2004

- comparative information will need to be fully restated to comply with the converged AASB Standards, from as early as 1 January 2004 for entities with December year ends.

Voluntary exemptions to retrospective application

An entity may elect to use one or more exemptions relating to the following:

- choosing not to retrospectively apply the converged AASB Standards to prior business combinations;
- using current fair value or certain prior revaluations as deemed cost for certain non-financial assets;
- electing to recognise all cumulative actuarial gains and losses at the date of transition relating to the measurement of the defined benefit asset or liability;
- deeming cumulative translation differences for all foreign operations to be zero at the date of transition;
- measurement of component parts of certain financial instruments;
- certain measurement options where entities (or associates or joint ventures) in a group become IFRS compliant at different dates.

Mandatory exemptions to retrospective application

An entity will be prohibited from retrospective application on matters related to:

- derecognition of financial assets and liabilities;
- hedge accounting; and
- changes in estimates for certain additional information that has become available.

In many respects, entities are given a 'fresh start' and will be required to redetermine their accounting policies under the converged AASB Standards, fully restating past comparative information. The limited optional exceptions will also present some opportunities for entities to determine optimal outcomes.

However, with the IASB reissuing the majority of the existing IFRS on issue, and more than 30 new converged AASB Standards expected in the next 12 months, entities will face a significant challenge in determining the impacts of convergence.

Although the expected AASB Standard and other IFRS converged Standards to be issued in the next 12 months may have a significant effect on accounting policies and therefore the financial report, the impact is not just accounting focussed. The resulting financial information and how it is determined will also impact other areas of an entity's business and consideration of these impacts should be incorporated into each entity's implementation plan. Areas affected may include:

- treasury management;
- dividend policies;
- debt covenants and financing;
- management compensation;
- product development;
- internal reporting;
- training and systems; and
- investor relations.

Major Initial Impact Areas

The following are some of the major impact areas on initial convergence that may impact on Australian entities:

- recognition and measurement of financial instruments – including restrictive hedging criteria;
- business combinations and goodwill;
- intangibles – including a prohibition on revaluation where there is no active market;
- impairment – reassessment of all assets using strict new requirements;
- income taxes – particularly where the revised AASB 1020 has not been previously applied;
- share-based payments – expensing will be required based on grant-date measurement for certain transactions that occurred after 7 November 2002 (subject to the share-based payment project being finalised);
- employee benefits – recognition of liabilities for underfunded defined benefit plans and certain assets for overfunded plans.

The impact for each entity will be different. There are also numerous other potential impacts arising from various differences between AASB and IASB Standards. For further details, refer the Deloitte publication *Differences Between Australian GAAP and IFRS and the Future Direction of Accounting Standards*, available on our website.

Action Points

Entities should consider the following action points in relation to matters covered in this *Accounting Alert*:

- understand the impacts, or potential impacts, on your opening balance sheet and other areas of business;
- review the exceptions to full restatement that are available, and determine the optimal approach in relation to the optional exceptions. Such as whether prior acquisitions should be restated or whether the transitional provisions of IFRS 1 should be adopted;
- ensure that adequate resources are available to implement IFRS and to consider the resulting impacts;
- develop an implementation team and approach.

Other Resources

Copies of IASB documents referred to in this *Accounting Alert* can be obtained from www.iasb.org.uk.

Deloitte maintains a comprehensive range of resources on international accounting standards at www.iasplus.com.

To obtain a copy of our in-depth *Discussion Paper* on first-time adoption of IFRS or the publication *Differences Between Australian GAAP and IFRS and the Future Direction of Accounting Standards*, visit our web site: www.deloitte.com.au.

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 identifying the issues surrounding the transition to IFRS, please contact your local Deloitte office or contact our National Technical Partner, Bruce Porter on 61 3 9208 7490 or bruporter@deloitte.com.au.

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