

Accounting Alert

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

**Alert # 2003/05
Issued 3 July 2003**



June 2003 Financial Reporting Update

This *Accounting Alert* provides an outline of some of the significant areas that may impact financial reporting for annual reporting periods ending 30 June 2003.

Overview

The information in this *Accounting Alert* is designed as a series of consideration points to assist entities when producing their financial reports at 30 June 2003.

Major topics include new and/or revised Accounting Standards, Urgent Issues Group Abstracts, and other information. These issues are not intended to be exhaustive, nor cover all matters relevant to financial reporting, rather, provide a guide to some of the significant matters to take into account when producing financial reports at 30 June 2003.

Provisions and Contingencies

(Refer to Accounting Alert 2001/10)

- AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' applies to annual reporting periods beginning on or after 1 July 2002.
- Disclosing entities would have already applied the recognition and measurement requirements of AASB 1044 in their half-year financial report, however other entities may not have previously applied these requirements (see *Accounting Alerts 2002/18* and *2001/10* for more details).

In addition to new recognition and measurement requirements, new disclosures are required, including movement schedules and details of contingent assets.

- Mandatory first-time application of the disclosure requirements of AASB 1044 to annual reporting periods ending 30 June 2003. New disclosures include:
 - a movement schedule for each class of provision;
 - details of the nature and significant uncertainties surrounding each provision and contingency;
 - breakdown of restructuring provisions and termination benefit liabilities by acquisition; and
 - disclosures about contingent assets.
- *Partial* exemption from disclosure where information is 'seriously prejudicial' to the entity.
- The Deloitte *Model Financial Reports* provide detailed examples of the new disclosures (available at www.deloitte.com.au).

Employee Benefits

(Refer to *Accounting Alert 2001/06*)

- Revised AASB 1028 'Employee Benefits' applies to annual reporting periods beginning on or after 1 July 2002.
- Disclosing entities would have already applied the recognition and measurement requirements of revised AASB 1028 in their half-year financial report, however other entities may not have previously applied these requirements (see *Accounting Alerts 2002/18* and *2001/06* for more details).
- Mandatory first-time application of the disclosure requirements of AASB 1028 to annual reporting periods ending 30 June 2003.
- Complex new disclosures for equity-based compensation plans (see examples in the Deloitte *Model Financial Reports*, available at www.deloitte.com.au).
- The AASB has issued a Media Release regarding the disclosures surrounding defined benefit plans – this release strongly encourages any entity with a defined benefit superannuation plan to disclose sufficient information to enable users of its financial report to determine the extent of any underfunding of the plan as at the reporting date.

New disclosures, particularly for equity-based compensation arrangements

AASB strongly encourages up-to-date information on defined benefit plans

Foreign Currency Translation

(Refer to *Accounting Alert 2002/18* for further information)

- Revised AASB 1012 'Foreign Currency Translation' applies to annual reporting periods beginning on or after 1 January 2002.
- The revised Standard clarifies that foreign currency hedges must be *recognised* in the statement of financial position at the date of entering into the hedge contract.
- The revised Standard also clarifies a number of matters relating to foreign currency translation, including operating in hyperinflationary economies, reclassification of foreign operations between 'integrated' and 'self-sustaining', and disposal of foreign operations.

Changes in Accounting Policies and Opening Balance Adjustments

- Most annual financial reports for 30 June 2003 will need to include additional disclosure resulting from the initial adoption of AASB 1044, AASB 1028 and possibly AASB 1012 – resultant opening balance adjustments will need to be:
 - Disclosed on the face of the statement of financial performance (except for derecognition of prior period dividend provisions);
 - Reflected in comparative period Earnings Per Share (EPS) disclosures in accordance with the requirements of AASB 1027; and
 - Disclosed as a change in accounting policy.
- See the Deloitte *Model Financial Reports* for example disclosures in these areas (available at www.deloitte.com.au).
- Opening balance adjustments are likely to arise in the following areas:
 - recognition and measurement requirements for provisions (eg: use of 'best estimate' and discounting to present value);
 - derecognition of prior period dividend provisions;
 - onerous contracts and restructuring provisions;
 - use of expected rates of pay for employee benefits measured on a nominal basis; and
 - recognition of hedges (where not recognised previously).

Hedges must be recognised in the statement of financial position at the time of entering the contract

Opening balance adjustments are likely in the current periods and will trigger several requirements

Accounting for the Tax Consolidation System

(Refer to *Accounting Alerts 2002/14* and *2003/03*, and *Discussion Paper 2003-01*)

All affected entities will need to consider the impacts of tax consolidation

Assessment of deferred tax balances, even where a decision to tax-consolidate has not yet been made

Full restatement of timing differences on implementation, requiring detailed calculations

- All reporting entities that are part of a tax-consolidatable group will have additional disclosures at 30 June 2003, even where a decision to implement the tax consolidation system has not yet been made – there is a presumption that such groups *will* tax-consolidate at some future date.
- Accounting requirements driven by ‘implementation date’, not ‘decision date’ or the date of notification to the Australian Taxation Office.
- UIG 39 applies before ‘implementation date’ and requires the assessment of deferred tax balances, using ‘reasonable best estimates’ if necessary – tax compensation arrangements may be needed to support deferred tax assets in controlled entities not expected to be realised prior to implementation.
- UIG 52 applies from ‘implementation date’, and has been reissued to effectively require *full restatement* of timing differences at the ‘implementation date’ of the tax consolidation system for items such as fair value adjustments, prior revaluations and resetting of tax values – if entities are not in a position to restate amounts, the decision to tax-consolidate may be better delayed until after signing of the 30 June 2003 financial report.

Directors’ and Executives’ Remuneration Disclosures

(Refer to *Accounting Alert 2003/04*)

ASIC suggests that action will be taken if the guidelines are not followed

ED 108/ED 2 requirements to be followed, even though IASB is proposing changes

- On 30 June 2003, ASIC released its final guidelines on valuing options in annual directors’ reports of listed companies under section 300A of the *Corporations Act 2001*.
- ASIC expects that the ‘guidance’ will be followed for reporting periods ending on or after 30 June 2003, and enforcement action may be considered where companies fail to disclose the value of emoluments relating to options.
- The guidance requires the following:
 - options to be valued at grant date in a manner consistent with IASB’s ED 2 and AASB ED 108 on ‘Share-based Payment’ as originally issued, notwithstanding that the IASB has decided to amend the requirements in the forthcoming IFRS – this will require the use of option pricing models;

- grant date option valuation to be included in remuneration over the vesting period (ie: on an accruals basis); and
- no adjustment for past amounts disclosed in the event that options do vest.
- ASIC encourages all entities preparing financial reports under the Corporations Act 2001 to apply the guidance in disclosing directors' and executives' remuneration in the notes to the financial statements under Accounting Standards AASB 1017 'Related Party Disclosures' and AASB 1034 'Financial Report Presentation and Disclosure'.
- There is no explicit requirement to recognise an expense for share-based payments at this stage, pending finalisation of a Standard based on ED 106 and ED 108/ED 2.

ASX Listing Rule Amendments

(Refer to *Accounting Alert 2002/19*)

New reporting requirements

- Appendix 4B replaced with new Appendix 4E (full years: lodged within 75 days for 30 June 2003, and within 2 months for 30 June 2004 and later financial years) and Appendix 4D (for half-years: lodged within two months for 30 June 2003 and later half years)
- Documents to be lodged electronically, with automatic suspension for failure to lodge within required deadlines.
- New corporate governance requirements apply from 1 July 2003, including a requirement that the Top 500 listed companies have an audit committee – entities will need to understand and act on these requirements immediately.

New corporate governance requirements apply from 1 July 2003 and must be in place for next financial year

International Convergence

(Refer to *Accounting Alerts 2002/09, 2002/16, 2003/01, 2003/02 and 2003/06*)

Over 30 new AASB Standards in the next 12 months.

- The international convergence project has gained momentum during the past six months, with the AASB announcing its timetable for convergence – more than 30 new Standards are expected before 31 March 2004.
- Comments on the first five exposure drafts closed on 30 June 2003.
- The IASB has issued IFRS 1 'First-time Adoption of International Financial Reporting Standards', but an equivalent Australian converged Standard has not been issued pending the resolution of legal and copyright issues.

AI 2 effectively restricts early adoption of IFRS requirements.

- The AASB has also issued Accounting Interpretation AI 2 'Transition to AASB Equivalents of IASB Standards and Applying the Hierarchy of Pronouncements in AASB 1001 and AAS 6' (AI 2). This Interpretation indicates that entities may not early adopt IFRS, unless it is consistent with current AASB Standards or no AASB Standard deals with the topic, and only if treated as a voluntary change in accounting policy.
- AI 2 effectively restricts the ability for entities to early adopt some IFRS requirements prior to full convergence. Entities that are proposing voluntary changes in accounting policies at 30 June 2003 will need to consider the requirements of this Interpretation.

Other Matters

(Refer to *Accounting Alert 2002/18* for UIG Abstracts issued July-December 2002)

New UIG on pre-completion contracts for development properties

- In addition to a revised UIG 52 dealing with accounting for the tax consolidation system, the UIG has also recently issued an Abstract on how property developers should recognise and measure revenues and expenses where property sales are made before or during the construction phase of a residential development project. The Abstract requires such items to be treated as construction contracts, with revenue recognised on a basis consistent with the requirements of AASB 1009 'Construction Contracts'.

Franking accounts now disclosed on a 'tax paid' basis

- Due to changes in Australian income tax legislation, franking account disclosures should now be presented on a 'tax paid' basis, rather than an 'after tax distributable profits' basis as was adopted in the past – comparative information should also be restated to a 'tax paid' basis to be comparable with the current period.

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.

This and other Deloitte publications are available on the Deloitte website at www.deloitte.com.au.

This and other Deloitte publications are available on the Deloitte website at www.deloitte.com.au. This Accounting Alert is of a general nature only and is not intended to be relied upon as, nor to be a substitute for, specific professional advice. No responsibility for loss occasioned to any person acting on or refraining from action as a result of any material in this publication can be accepted. The liability of Deloitte Touche Tohmatsu is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW). © 2003 Deloitte Touche Tohmatsu. All rights reserved. Produced in Australia. Mel_0603_03161