

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

AASB 108 “Accounting Policies, Changes in Accounting Estimates and Errors” replaces AAS 6 / AASB 1001

Major impacts of changes

- Changes in accounting policy (unless a new Standard mandates otherwise) and correction of errors must be accounted for retrospectively, by restating comparative information and adjusting the opening balance of accumulated funds, unless impracticable.
- Disclosure of the expected impact of a new Standard that is not yet effective.

Key features of Standard

- AASB 108 substantially replicates the requirements of AAS 6 / AASB 1001 and parts of AASB 1018 “Statement of Financial Performance” and AASB 1040 “Statement of Financial Position”, except for the areas discussed under “main differences” below.

Main differences compared to previous Australian requirements

- *Retrospective application* - There are two types of changes in treatment that must be adjusted retrospectively, unless otherwise required or to the extent practicable, as follows:
 - *Changes in accounting policy* –
 - *Voluntary changes* - Must be accounted for retrospectively by adjusting the opening balance of retained earnings for the earliest period presented and restating comparative information (para 19 and 22). Previously under AASB 1001, the cumulative financial effect up to the end of the preceding financial year of a voluntary change in accounting policy was recognised as a revenue or expense in the financial year in which the change was made; and comparative information on the face of the financial statements was not restated.
 - *Required by an Accounting Standard* – Must be accounted for in accordance with the specific transitional provisions of the Standard; or if there are no specific transitional provisions the change must be accounted for retrospectively. Transitional provisions of new Standards generally require retrospective treatment by adjusting the opening balance of retained earnings for the earliest period presented and restating comparative information, unless otherwise required (e.g. financial instruments). Previously, under Australian Standards, accounting policies arising from new Standards were generally applied from the beginning of the reporting period to which the new Standard first applied by adjusting opening retained earnings; and comparative information on the face of the financial statements was not restated.
 - *Errors* –
 - *Accounting treatment* - Corrected retrospectively by restating comparative information or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest period presented (para 42). In contrast, AASB 1018 permitted either the erroneous financial report to be reissued or required corrections to be included in profit or loss for the period in which the error was discovered; and prohibited the restatement of comparative information on the face of the financial statements. But, revisions in estimates are treated *prospectively* under both AASB 108 and AASB 1018.
 - *Fundamental errors omitted* - Unlike AASB 1001, AASB 108 does not distinguish between fundamental errors and other errors and requires all material errors to be accounted for and disclosed in the same way (para 49).

- *Impracticable* – AASB 108 outlines some “limitations” or exceptions to the requirement for retrospective restatement of a correction and voluntary change in accounting policy, where restatement is impracticable (para 5, paras 23-25, paras 43-45).
- *Prudence* – When selecting an accounting policy, in the absence of an Accounting Standard, regard must be made to whether an accounting policy results in information that is prudent (para 10). “Prudence” was excluded from the AASB 1001 definition of “reliability”. Prudence may result in the understatement of assets and the overstatement of liabilities.
- *Disclosure of information regarding future impact of a new Australian Accounting Standard* – When an entity chooses not to early adopt a new Australian Accounting Standard, it must disclose all known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity’s financial report in the period of initial application (para 30). Previously, AASB 1001 encouraged but did not require this disclosure.

Impact on the public sector

- Not-for-profit and for-profit entities are subject to identical requirements.

Policy and Implementation issues

- *Disclosure of future implementation of a new Australian Accounting Standard* – For example, for the 2005/06 financial report, entities will need to disclose any impacts of new Australian Accounting Standards that have been issued but are not effective for 2005/06.
- *First time adoption and initial impacts of IFRS* – This is addressed separately in:
 - AASB 1 “First Time Adoption of Australian Equivalents to International Financial Reporting Standards” (AIFRS);
 - AASB 1047 “Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards” which separately addresses disclosures for 30 June 2004 and 30 June 2005.

According to AASB 1, an entity must use the same accounting policies in the opening AIFRS balance sheet and throughout all periods presented in the first AIFRS financial report. As a result, entities will not need to refer to AASB 108 regarding voluntary changes in accounting policy until *after* the first AIFRS financial report.

This summary has been written in general terms and is intended for general reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.