

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

AASB 1047 “Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards”

Major impact

- Requires disclosure of the impacts of adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) in the period leading up to 2005.
- For the year ending 30 June 2004, entities must disclose -
 - an explanation of how the transition to AIFRS is managed; and
 - a narrative explanation of key differences in accounting policies expected to arise.

Key features

Background

- The aim of AASB 1047 is to provide users of financial reports with information about the impacts of changes in accounting policies, resulting from the adoption of AIFRS.
- References to AIFRS relate to the Australian equivalents to those Standards forming part of the International Accounting Standards Boards’ “stable platform”, as issued at 31 March 2004.

Application

- Applies to all reporting entities, including not-for-profit entities.
- AASB 1047 is operative for interim and annual reporting periods ending on or after 30 June 2004 and ceases on first-time adoption of AIFRS.

Disclosures – reporting periods ending on or after 30 June 2004

- Two key disclosures are required -
 - An explanation of how the transition to AIFRS is being managed (para 4.1(a)). This includes an entity’s plans and degree of achievement of the transition (para 4.1.1).
 - A narrative explanation of key differences in accounting policies that are expected to arise from adopting AIFRS (para 4.1(b)).
- Examples illustrating changes in accounting policies that may require disclosure are included in the Standard (refer para 4.1.2). Standards where accounting policy changes may be relevant for some public sector entities, include:
 - Provisions, contingent liabilities and contingent assets – Provisions for retirement or disposal of long-lived assets will be required (para 4.1.2(h)).
 - Intangible assets – Internally generated identifiable intangible assets will be derecognised where they do not satisfy the recognition criteria (para 4.1.2(i)).
 - Financial instruments: Recognition and measurement – Entities may need to change the method of accounting for derivative financial instruments and hedging activities (para 4.1.2(j)).
 - Investment property – May be measured at fair value with changes in fair value recognised in income (para 4.1.2(l)).
 - Income tax – Entities will be required to adopt a balance sheet approach for recognising temporary differences (para 4.1.2(c)).
- In making these disclosures, entities will need to exercise judgement in identifying accounting policy changes, including consideration of the transitional provisions outlined in AASB 1 regarding first-time adoption (para 4.1.2).

Disclosures – reporting periods ending on or after 30 June 2005

- Entities must disclose:
 - Any known or reliably estimable information about the impacts on the financial report had it been prepared using AIFRS (para 4.2(a)); or
 - If the impacts above are not known or reliably estimable, a statement to that effect (para 4.2(b)).
- The manner of presentation of quantified financial information is not prescribed by the Standard. However, an entity should consider disclosing an estimate of the effect on its reported financial position and financial performance e.g. a line-by-line reconciliation of financial statement items, including an explanation of the effect on each line item or as a reconciliation of key aggregates (para 4.2.3).

Impact on the public sector

- For-profit and not-for profit public sector entities are subject to identical requirements.
- However, in making disclosures, public sector entities will need to consider the impact of the GFS/GAAP convergence project, which may influence Treasury’s choice of options under AIFRS (see below).

Policy and Implementation issues

- Treasury will provide agencies with a “suggested” or “generic” note disclosure for the 2003/04 financial report, explaining the expected key differences in accounting policies and how the transition to AIFRS is being managed. Agencies can modify the suggested wording to their particular circumstances, although the nature of the accounting policy differences should be the same. This approach is proposed to ensure consistency between agencies and at the whole of government level. Treasury’s suggested wording will be developed from the “Treasury Analysis” documents, which includes AIFRS options likely to be mandated.
- Treasury will issue the suggested note disclosure to agencies by 30 June 2004. However, this guidance cannot be finalised until all the final AASB Standards are issued, which is not expected until June 2004.
- In the meantime, agencies should review the Treasury Analysis documents for their own circumstances, to ensure they have identified all expected significant differences in accounting policy. This will be important in assessing whether Treasury’s “generic” note disclosure will be appropriate for the individual circumstances of an agency.

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.