

fasttrack

Financial Accounting-Standards & Technical

Grant Thornton 

AASB 1047 Disclosing the Impacts of Adopting A-IFRS

Australian Accounting Standard AASB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards requires disclosure about the impacts of any changes in accounting policies in the transition period leading up to adoption of Australian Equivalents to International Financial Reporting Standards (A-IFRS). It applies to all entities that:

- prepare financial reports in accordance with part M.3 of the Corporations Act and that is a reporting entity; or
- prepare general purpose financial reports.

The standard applies to interim and annual reporting periods ending on or after 30 June 2004 and ceases to apply from first time adoption of A-IFRS. The standard takes a two-step approach over two financial years where the level of disclosure required becomes more detailed as the adoption date approaches:

- Level one disclosures apply to periods ending on or after 30 June 2004. Entities must explain how the transition is being managed and provide narrative of the key differences in accounting policies.
- Level two disclosures apply to periods ending on or after 30 June 2005. Entities must disclose known or reliably estimable information about the impact (quantified) on their financial reports had they been prepared under A-IFRS.

Level two disclosures are now applicable for 30 June 2005 financial reports. This means quantifying an opening balance sheet at 1 July 2004 and a closing one at 30 June 2005 under A-IFRS in order to be able to quantify the impacts. If you have not already performed this quantification or require any assistance in this regard, please contact your Grant Thornton engagement partner as a matter of priority. *(continued on Page 2)*

Contents

- 1 AASB 1047 Disclosing the Impacts of Adopting A-IFRS
- 4 AASB 1046A Amendments to Accounting Standard AASB 1046
- 5 ASX lodgement deadlines
- 5 CLERP 9 changes applicable for the 2005 financial year
- 6 UIG 1052 Tax Consolidations
- 6 What's new for 30 June 2005 financial reporting?



AASB 1047 Disclosing the Impacts of Adopting A-IFRS (cont)

ASIC and AASB 1047

“Given the positive outcome of our review of the AASB 1047 disclosures at 30 June 2004, which indicated that most listed entities expected to manage the transition to IFRSs, we would expect that most entities will now be able to disclose the quantified impact of the changes”, ASIC’s Chief Accountant, Mr Greg Pound, said.

ASIC have noted:

- It is expected that the form and content of the disclosure will vary between entities. The information required by AASB 1047 should, however, be provided at a level of detail such that users of the financial report can understand the nature and extent of the significant impacts on the financial report.
- In the rare cases, where an entity's management of the transition to IFRS has unavoidably not reached a point where it is practicable to provide reliably estimable quantitative information, disclosure to that effect should be provided with an explanation as to the reasons and the directors' expectations about the ongoing management of the transition process.
- ASIC does not believe that it is appropriate to withhold information about the quantified impact, even where not all possible impacts are known or have been reliably estimated. To meet the requirements of the Standard, that information needs to be provided to achieve transparency about the matters which remain uncertain and the reasons for that uncertainty.

ASIC will be reviewing compliance with AASB 1047 as part of its ongoing review of financial reports of listed entities. As part of their 2004 surveillance ASIC reviewed the AASB 1047 disclosures of all listed entities.

Audit and AASB 1047

The Corporations Act 2001 requires auditors to express an opinion on the financial report, including an opinion on whether the company and, where applicable the consolidated entity, under audit has complied with the requirements of Accounting Standards. Accordingly, any information disclosed in the financial report in order to comply with the requirements of AASB1047 is subject to audit.

ASIC has stated that it is of the view that disclosures under AASB 1047 do not fall within the AUS 702 requirements for use of an 'emphasis of matter' relating to an inherent uncertainty merely because an accounting standard or the interpretation of that standard may change prior to the preparation of the first IFRS financial report, or because the entity might later choose to apply a different option under the standard. The IFRS standard represents the authoritative and objective requirement at that point in time and any appropriate interpretation or option chosen represents the entity's decision as to its application at the time of the disclosure. A statement to this effect could be provided in the financial report. Assuming that the auditor accepts the policy and the underlying financial records and data are available and correctly applied to implement the policy, a reliable measurement or estimate is available.

Presentation of AASB 1047 disclosures

Entities that have fully completed a business impact analysis

Alternative presentation methods include:

- pro-forma financial statements reconciling financial statement items on a line by line basis between the Australian GAAP ("AGAAP") reported amounts and the estimated amounts under A-IFRS;
- a reconciliation of the key financial aggregates relating to the financial statements between the AGAAP reported amounts and the estimated amounts under A-IFRS; and
- a narrative explanation of the impacts of the transition to A-IFRS, including quantification of the impacts as it affects the treatment of particular items.

(continued on Page 3)

AASB 1047 Disclosing the Impacts of Adopting A-IFRS (cont)

Presentation of AASB 1047 disclosures (cont)

Line by line disclosure

Restate Statement of Financial Position, Statement of Financial Performance and Statement of Cash flows line by line including narratives of each difference, for example:

XYZ Statement of Financial Performance for the year ended 30 June 2005

	Note	AGAAP	A-IFRS	A-IFRS
		actual \$'000	impact \$'000	pro forma \$'000
Revenue	1	(3,000)	(500)	(3,500)
Employee benefits expense	2	(1,000)	(250)	(1,250)

Note 2: Share-based payments

Employees of XYZ Ltd are entitled to a share based compensation plan. XYZ Ltd does not currently account for the value of this plan as an expense. Under AASB2 the financial statements are required to recognise the value of the services rendered (for this compensation) as an expense. This would increase expenses by \$250,000 for the current period had A-IFRS been applied.

Reconciliation of the key financial aggregates

Reconcile key financial aggregates in the Statement of Financial Position, Statement of Financial Performance and Statement of Cash flows including narratives, for example:

	\$'000
Net Profit (AGAAP)	2,051
Employee benefits expense	(52)
Depreciation and amortisation expense	(240)
Impairment of non-current assets	(500)
Changes in the fair value of derivatives	214
Changes in the fair value of designated hedges	42
Changes in the fair value of investment properties	108
Income tax expense	(20)
Other differences	(17)
Net Profit (A-IFRS)	<u>1,586</u>

Note 2: Share-based payments

Employees of XYZ Ltd are entitled to a share based compensation plan. XYZ Ltd does not currently account for the value of this plan as an expense. Under AASB2 the financial statements are required to recognise the value of the services rendered (for this compensation) as an expense. This would increase expenses by \$250,000 for the current period had A-IFRS been applied.

Narrative explanation of the impacts

Another method of complying with the requirements of AASB 1047 is to present, in the notes to the financial statements, the impact of A-IFRS on the financial report in a narrative form (for each material item) without disclosing any reconciliations (illustrated above). The narrative is designed to illustrate and explain the effect of the transition to A-IFRS on financial statement items presented in the AGAAP financial report. For example:

Note 2: Share-based payments

Employees of XYZ Ltd are entitled to a share based compensation plan. XYZ Ltd does not currently account for the value of this plan as an expense. Under AASB2 the financial statements are required to recognise the value of the services rendered (for this compensation) as an expense. This would increase expenses by \$250,000 for the current period had A-IFRS been applied.

Entities that have partially completed a business impact analysis

Where an entity has partially completed its business impact analysis, including evaluation of the options available under A-IFRS, the entity may not know or be able to reliably estimate all the impacts of A-IFRS on its financial report. Where an entity does not know or is not able to reliably estimate the impacts of particular A-IFRS on its financial report, the entity should disclose that fact. The AASB encourages entities to update the AASB 1047 disclosures made in a previous report in these instances. For example:

Management of the transition to A-IFRS

Update 2004 discussion of company transition to A-IFRS, including the companies progress to transition to A-IFRS and why amounts cannot be quantified. *(continued on Page 4)*

AASB 1047 Disclosing the Impacts of Adopting A-IFRS (cont)

Presentation of AASB 1047 disclosures (cont)

Provide detailed explanation of each A-IFRS issue, for example:

Defined benefit superannuation plans

Under A-IFRS, the consolidated entity will be required to recognise the surplus or deficit of defined benefit plans as an asset or liability in the statement of financial position and has elected for all movements, including actuarial gains and losses, to be recognised in profit or loss. The cumulative effect of the above requirement on the company at 30 June 2005 will result in an increase in the employee benefit provision and employee benefits expense that has not been

quantified.

Share-based payments

Under A-IFRS, the consolidated entity will be required to recognise share based compensation. Employees of XYZ Ltd are entitled to a share based compensation plan. XYZ Ltd does not currently account for the value of this plan as an expense. The cumulative effect of the above requirement on the company at 30 June 2005 will result in an increase in equity and employee benefits expense that has not been quantified.

AASB 1046A Amendments to Accounting Standard AASB 1046

The Australian Accounting Standards Board (AASB) released AASB 1046A in September 2004. AASB 1046A amends AASB 1046 to permit the use of the "market condition" rules when valuing equity grants. The calculations for these disclosures required by AASB 1046A are now consistent with those required under AASB 2 when it becomes effective. AASB 1046A is applicable to reporting periods beginning on or after 1 July 2004. AASB 1046A amends AASB 1046 in the following ways:

- Market condition definition introduced. Para 12.1 defines market condition as "a condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to a market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities."
- Recalculation of comparative information from the preceding reporting period is permitted. The measurement rules introduced by AASB 1046A are permitted to be used to revalue the amount of equity compensation disclosed in the preceding period for inclusion as comparative information.
- Appendix 6 from AASB 1046 is replaced.

The treatment of market conditions in AASB 1046A is:

- All vesting conditions (except those based on a market condition) are not permitted to affect the calculation of fair value at option grant date.
- At vesting date, the cumulative expense is adjusted (trued-up) to reflect the actual number of options actually granted based on vesting conditions (other than market conditions).
- The probability of meeting a market condition is permitted to be used to reduce the fair value at option grant date.
- No truing up is permitted for a difference in the number of options actually granted due to a failure to satisfy a market condition
- Any estimated vesting date (based on a market condition) cannot be adjusted to reflect the actual date. Where the vesting date depends on a non-market condition, the allocation of expenses across reporting periods is permitted to be adjusted to reflect a change in the estimated date.

ASX lodgement deadline extended for first time adoption of A-IFRS:

- After consultation with ASIC, and through the application of 4 pairs of temporary listing rules, ASX lodgement deadlines have been extended for listed companies reporting for the first time in accordance with A-IFRS, and also for entities complying with paragraph 4.2 of AASB 1047.
- All listed companies with a December 2005 year-end will be given 75 days within which to lodge the first Half-Yearly Report (Appendix 4D), in full compliance with A-IFRS, rather than 2 months.
- All listed companies with a June 2005 year-end will be given 75 days within which to lodge the first Preliminary Final Report (Appendix 4E), in full compliance with A-IFRS and paragraph 4.2 of AASB 1047, rather than 2 months.

CLERP 9 changes applicable for the 2005 financial year

The CLERP 9 reforms to the Corporation Act, and other related legislation, have set out certain new requirements for financial reporting that are applicable to the 2005 financial year. These requirements apply differently to listed and unlisted companies in relation to their reporting requirements. A summary of these changes and their different applications is tabled below.

CLERP 9 changes applicable to all companies with financial years commencing 1 July 2004:

Financial reporting

Auditor independence declaration to form part of directors' report
New rules on auditor independence and conflict of interest situations
Expansion of auditor duties such that auditors must notify ASIC as soon as practicable, and in any case within 28 days, if the auditor is aware of any circumstances where a contravention of the law has taken place

CLERP 9 changes applicable to listed companies with financial years commencing 1 July 2004:

Directors' Remuneration

Requirement
Expansion of disclosures in directors' report, including policies and remuneration
Non-binding resolution on the remuneration report
Shareholder approval for certain termination payments

Financial reporting

Requirement
CEO/CFO to provide a declaration about the company's financial records and financial statements
Directors' reports to include expanded discussion and analysis of results and financial position
Directors' report to include additional information to provide a true and fair view
Directors' report to include details of directorships in other listed companies in the last 3 years
Qualifications and experience of the company secretary to be disclosed
Disclosure in the directors' report of each officer who was formerly a partner/ director of the current auditor
Disclosure in the directors' report of details, amounts and assessment of impact on independence for all non-audit services, with specific requirements for the Board and Audit Committees
Restrictions on auditors being employed by clients - 2 year cooling off period and limit on the number of former audit partners
Auditors required to attend AGM and shareholders have a right to submit written questions

UIG 1052 Tax Consolidations

Main features

This interpretation specifies the accounting treatment necessary for the implementation of tax consolidation treatment for an entity.

Essentially, the change in interpretation requires subsidiaries of a tax consolidated group to recognise both current and deferred taxes, based on methods consistent with AASB 1012 Income Taxes. This will result in passing down the corporate structure the recognition of tax credits and tax assets (liabilities) to the subsidiaries where they are generated. This will mean that subsidiaries in the tax consolidated group will report as though they were stand alone taxable entities themselves.

Comparison with previous requirements

From years ending on or after 31 December 2005 UIG 1052 will supersede the UIG abstract 52 Income Tax Accounting Under the Tax Consolidation System.

Whereas, under UIG 52, the head entity in a tax consolidated group recognised both current and deferred taxes in relation to the wholly owned subsidiaries in the group, under UIG 1052 the subsidiaries continue to recognise the deferred taxes. Further to this, the head entities assumption of the balances of subsidiaries must be accounted for through equity contributions or distributions.

Under the new interpretation all Tax Funded Amounts (TFA) are recognised as intra-group equity contributions or distributions. Previously TFA assets and liabilities were accounted for as tax related balances, and TFA revenue and expenses were accounted for as a component of income tax expense or revenue.

This is a major turnaround in terms of policy direction, as previously tax consolidated entities held the current and deferred balances on behalf of the subsidiaries, and now the subsidiaries account for these as if they were tax paying entities themselves.

What's new for 30 June 2005 financial reporting?

The following new or revised pronouncements are applicable for 30 June 2005 year ends that were not applicable at 30 June 2004:

Accounting Standards

AASB 1047	Disclosing the Impacts of Adopting Australian Equivalent of International Financial Reporting Standards (level 2 disclosures)	Issue 36 June 2005
AASB 1046A	Amendments to Accounting Standard AASB 1046	Issue 36 June 2005

Other

Various sections of Corporations Act amended by CLERP 9	Issue 33 August 2004 and Issue 36 June 2005
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For entities with 31 December year ends that are preparing half year financial reports at 30 June 2005, Australian Equivalents to International Financial Reporting Standards (A-IFRS) apply, including AASB 134 Interim Financial Reporting.

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