

AASB adoption of IASB standards by 2005

Last updated 10 August 2004

The AASB made Australian equivalents to International Accounting Standards Board (IASB) standards on 15 July 2004. In doing so, the AASB acted in accordance with a Financial Reporting Council strategic direction.¹ The plans for the adoption process were initially agreed after meeting with the AASB Consultative Group in March 2003.

The issue of the Australian equivalents to IASB standards achieve the FRC's strategic directive of ensuring that for-profit entities applying AASB standards for reporting periods beginning on or after 1 January 2005 will also be complying with IASB standards.

The AASB will continue to work to maintain "parity" with the IASB's standards in order that the FRC's strategic directive continues to be met.

Overall approach

In adopting the IASB's standards, the AASB's overall approach is to adopt the content and wording of IASB standards. Words are only being changed where there is a need to accommodate the Australian legislative environment. An example is the need to include an Australian application paragraph that mentions the *Corporations Act 2001*. These changes do not affect the substance of the requirements.

The IASB's focus is on for-profit entities. The AASB is responsible for setting accounting standards for all types of reporting entities². Additional text, suitably identified, is included in the AASB standards to deal with those limited cases where there is a need to have different or additional requirements for not-for-profit entities³. These additions do not impact on the requirements in relation to for-profit entities.

There are circumstances in which a not-for-profit entity complying with the Australian equivalents to the IASB standards will not be able to simultaneously comply with the IASB standards because the additional requirements for not-for-profit entities are inconsistent with the IASB requirements.

Optional treatments and additional disclosures

1 FRC Bulletin 2002/4, 3 July 2002

2 Under section 227(1) of the *Australian Securities and Investments Commission Act 2001*, the functions of the AASB are to

(a) develop a conceptual framework not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;

(b) make accounting standards under section 334 of the *Corporations Act* for the purposes of the corporations legislation;

(c) formulate accounting standards for other purposes;

(d) participate in and contribute to the development of a single set of accounting standards for world-wide use; and

(e) advance the main objects of this Part [Part 12].

It should be noted that, even in respect of the corporations legislation, the AASB needs to deal with issues concerning not-for-profit entities, because many such entities are incorporated.

3 Under section 229(2) of the *Australian Securities and Investments Commission Act 2001*, the AASB

(a) must have regard to the suitability of a proposed standard for different types of entities; (b) may apply different accounting requirements to different types of entities; and (c) must ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.

The AASB is aiming for the highest quality financial reporting in adopting IASB standards. To this end, subject to due process, the AASB sometimes permits only one of a number of optional treatments available in IASB standards. In addition, the AASB sometimes requires additional disclosures, particularly where these are already required under existing AASB standards. Removal of optional treatments and additional disclosure requirements do not impact on the capacity of an Australian entity to achieve compliance with IASB standards.

The AASB's policy on optional treatments is explained in *AASB policy on optional treatments and scope exclusions in relation to the adoption of IASB standards for 2005* on the AASB's web site at AASB/Work Program/IASB 2005.

Additional guidance

In some cases, existing AASB standards contain helpful commentary that is not included in the equivalent IASB standards. The AASB retains this commentary as guidance that is not part of the standards where it is considered to be of benefit to users of AASB standards and provided it does not contradict the content of Australian equivalents to IASB standards. Such guidance may, for example, deal with situations that are commonly encountered in the Australian environment but which are not catered for in the IASB standards.

Main objects of ASIC Act

In performing its functions, the AASB must have regard to the objects of Part 12 of the *Australian Securities and Investments Commission Act 2001*. Due to the overall benefits associated with adoption of IASB standards, it is expected that the adoption of each and every IASB standard will be consistent with the objects of Part 12. However, the possibility that the AASB would not adopt an IASB standard cannot be completely discounted. In rare and exceptional circumstances, the AASB may decide that adoption of an IASB standard is not consistent with the objects of Part 12.

The objects of Part 12 of the ASIC Act are:

- (a) to facilitate the development of accounting standards that require the provision of financial information that:
 - (i) allows users to make and evaluate decisions about allocating scarce resources; and
 - (ii) assists directors to discharge their obligations in relation to financial reporting; and
 - (iii) is relevant to assessing performance, financial position, financing and investment; and
 - (iv) is relevant and reliable; and
 - (v) facilitates comparability; and
 - (vi) is readily understandable; and
- (b) to facilitate the Australian economy by:
 - (i) reducing the cost of capital; and
 - (ii) enabling Australian entities to compete effectively overseas; and
 - (iii) having accounting standards that are clearly stated and easy to understand; and
- (c) to maintain investor confidence in the Australian economy (including its capital markets).

Reporting Entity & General Purpose Financial Reports – SACs 1 & 2

The IASB has no equivalent to SAC 1 *Definition of the Reporting Entity*, and the reporting entity concept is embedded in Australian GAAP. The concept of general purpose financial

reports in SAC 2 *Objective of General Purpose Financial Reporting*, is also essential to the application of AASB Standards. The AASB is retaining the substantive content of SACs 1 and 2, however, the form of these documents may change. The AASB notes that the applicability of AASB standards is a matter for the AASB and that this does not affect the content of the standards in terms of recognition, measurement and disclosure requirements.

In September 2003, the AASB issued ED 124 Request for Comment on: The Definition of Reporting Entity; IASB *Framework for the Preparation and Presentation of Financial Statements*; IAS 18 *Revenue*; and IAS 20 *Accounting for Government Grants and Government Assistance*. Comments closed on 30 November 2003. ED 124 proposed an amended definition of “reporting entity” that is close to the existing Australian definition and includes some aspects of the IASB definition. This definition has been adopted in the Australian equivalents to IASB standards.

2 Other AASB standards

The AASB continues to maintain standards of particular relevance to the Australian environment that deal more specifically with not-for-profit entity issues and/or do not have an equivalent IASB standard.

Materiality

AASB 1031 and AAS 5 *Materiality* and the IASB *Framework* (paragraphs 29 and 30) are consistent, however, AASB 1031 and AAS 5 are far more comprehensive. The AASB has adopted the IASB’s *Framework* and retained AASB 1031 (broadened to cover entities previously covered by AAS 5) to ensure that the meaning of materiality remains clear.

Concise financial reports

AASB 1039 *Concise Financial Reports* applies to concise financial reports prepared by those companies, disclosing entities and registered schemes that elect, under section 314 of the *Corporations Act 2001*, to send their members a concise report, instead of an annual report. The AASB proposes to amend AASB 1039 in the near future to take into account recent changes to other standards due to the adoption of IASB standards.

Director and executive disclosures by disclosing entities

AASB 1046 *Director and Executive Disclosures by Disclosing Entities* includes requirements that go beyond the disclosures required under AASB 124 *Related Party Disclosures*. AASB 1046 provides a configuration that incorporates features of overseas reporting adapted to accord with requirements in the *Corporations Act 2001*. The AASB proposes to amend AASB 1046 to take into account the “new” requirements in AASB 2 *Share-based Payment*.

Selected not-for-profit entity standards

AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* are currently under review.⁴ They will be retained by the AASB (and will be re-badged as “AASB” standards). This is because, although most of the AASB’s financial reporting requirements apply equally to all types of reporting entities, there are selected issues of particular importance to the public sector that are best dealt with in separate standards.

⁴ For example, the AASB issued ED 125 *Financial Reporting by Local Governments* in October 2003.

The IASB has IAS 26 *Accounting and Reporting by Retirement Benefit Funds*. However, superannuation plans are regarded as not-for-profit entities that are substantially impacted by domestic regulation and the AASB has not dealt with this topic as part of the IASB adoption strategy. The AASB will retain AAS 25 *Financial Reporting by Superannuation Plans* and undertake a fundamental review of its requirements (and any revised standards will be re-badged as an “AASB” standard). Since AAS 25 specifically applies to superannuation plans, its requirements override those of other standards. (For example, the requirement in AAS 25 to measure assets at net market value overrides the asset measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*.)

3 2005 set of Standards

The following Australian equivalents to IASB standards were made by the AASB on 15 July 2004. The table shows the existing equivalent standards and key documents that were issued as part of the due process of making the 2005 set of standards. For the sake of brevity, the existing equivalent standards do not include the AAS series versions.

2005 set	Pre-2005 set	Exposure Drafts etc.
<i>Framework for the Preparation and Presentation of Financial Statements</i>	SACs 3 & 4	ED 124
Application paragraphs referring to Reporting Entity & General Purpose Financial Reports	SACs 1 & 2	ED 124
AASB 101 <i>Presentation of Financial Statements</i>	AASB 1001 (in part) AASB 1018 (in part) AASB 1034 AASB 1040	ITC/ED May 2002
AASB 102 <i>Inventories</i>	AASB 1019	ED 116
AASB 107 <i>Cash Flow Statements</i>	AASB 1026	ED 110
AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	AASB 1001 (in part) AASB 1018 (in part)	ITC/ED May 2002
AASB 110 <i>Events After the Balance Sheet Date</i>	AASB 1002	ITC/ED May 2002
AASB 111 <i>Construction Contracts</i>	AASB 1009	ED 118
AASB 112 <i>Income Taxes</i>	AASB 1020	ED 128
AASB 114 <i>Segment Reporting</i>	AASB 1005	ED 119
AASB 116 <i>Property, Plant and Equipment</i>	AASBs 1015 AASB 1021 AASB 1041	ED 120
AASB 117 <i>Leases</i>	AASB 1008	ITC/ED May 2002
AASB 118 <i>Revenue</i>	AASB 1004	ED 124
IAS 19 <i>Employee Benefits</i>	AASB 1028	ED 115
AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	AASB 1004	ED 124
AASB 121 <i>The Effects of Changes in Foreign Exchange Rates</i>	AASB 1012	ITC/ED May 2002 ITC July 2003
AASB 123 <i>Borrowing Costs</i>	AASB 1036	ED 111
IAS 24 <i>Related Party Disclosures</i>	AASB 1017	ITC/ED May 2002 ED 106
AASB 127 <i>Consolidated and Separate Financial Statements</i>	AASB 1024	ITC/ED May 2002
AASB 128 <i>Investments in Associates</i>	AASB 1016	ITC/ED May 2002
AASB 129 <i>Financial Reporting in Hyperinflationary Economies</i>	AASB 1012 (in part)	ED 112

2005 set	Pre-2005 set	Exposure Drafts etc.
AASB 130 <i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i>	AASB 1032	ED 113
AASB 131 <i>Interests in Joint Ventures</i>	AASB 1006	ED 121
AASB 132 <i>Financial Instruments: Disclosure and Presentation</i>	AASB 1033	ITC/ED June 2002
AASB 133 <i>Earnings per Share</i>	AASB 1027	ITC/ED May 2002
AASB 134 <i>Interim Financial Reporting</i>	AASB 1029	ED 126
AASB 136 <i>Impairment of Assets</i>	AASB 1010	ED 109
AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	AASB 1044	ED 127
AASB 138 <i>Intangible Assets</i>		ED 109
AASB 139 <i>Financial Instruments: Recognition and Measurement</i>		ITC/ED June 2002 ED 123
AASB 140 <i>Investment Property</i>		ED 103 ITC/ED May 2002
AASB 141 <i>Agriculture</i>	AASB 1037	ED 114
AASB 1 <i>First-time Adoption of Australian Equivalents to International Financial Reporting Standards</i>		ED 107
AASB 2 <i>Share-based Payment</i>		ED 108
AASB 3 <i>Business Combinations</i>	AASB 1013 AASB 1015	ED 109
AASB 4 <i>Insurance Contracts</i> AASB 1023 <i>General Insurance Contracts</i> AASB 1038 <i>Life Insurance Contracts</i>	AASB 1023 November 1996 AASB 1038 November 1998	ED 122 ED 122A ED 122B
AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	AASB 1042	ED 117
Extractive Activities Phase I	AASB 1022	ED 130
AASB 1048 <i>Interpretation and Application of Standards</i>		

ED = Exposure Draft SAC = Statement of Accounting Concepts ITC = Invitation to Comment

The AASB is closely tracking the IASB's work on Extractive Activities Phase I and it is likely that the treatments in AASB 1022 will be grandfathered, although AASB 1022 will probably need to be reissued to ensure that it functions properly with the 2005 set of standards.

The AASB is working on Australian Guidance to accompany AASB 112 *Income Taxes*, which will become available later in 2004.