Accounting Standard

AASB 1047
April 2004

Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards

Australian Government
Australian Accounting Standards Board

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Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The aim of this Standard is to provide users of financial reports with relevant and reliable information in the period leading up to 2005 about the impacts of changes in accounting policies resulting from implementing Australian equivalents to International Financial Reporting Standards (IFRSs).

Adoption of the Standards in 2005 may have significant impacts on the accounting policies of Australian reporting entities and their reported financial position and financial performance. References to Accounting Standards relate to the Australian equivalents to those Standards forming part of the IASB's "stable platform" as issued at 31 March 2004.

The basis of the disclosures in this Standard were initially proposed in Exposure Draft ED 129 *Disclosing the Impact of Adopting AASB Equivalents to IASB Standards*. Those proposals have been amended to reflect the responses received and subsequent decisions by the Australian Accounting Standards Board.

The Standard, which applies to all reporting entities, including not-for-profit entities, for reporting periods preceding the adoption of Australian equivalents to IFRSs, requires entities to disclose:

(a) information in respect of planning for the transition to Australian equivalents to IFRSs and any key differences in accounting policies that are expected to arise on the adoption of Australian equivalents to IFRSs; and

(b) known or reliably estimable information about the impacts on the financial reports of annual reporting periods ending on or after 30 June 2005 had the financial report been prepared using Australian equivalents to IFRSs.

ACCOUNTING STANDARD AASB 1047

The Australian Accounting Standards Board makes Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* under section 334 of the *Corporations Act 2001*.

D.G. Boymal
Chair – AASB

Dated 20 April 2004

ACCOUNTING STANDARD AASB 1047

"DISCLOSING THE IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS"

1 Application

1.1 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial reports of each other reporting entity; and

(c) financial reports that are, or are held out to be, general purpose financial reports.

2 Operative Date

2.1 This Standard applies to interim and annual reporting periods ending on or after 30 June 2004 and ceases to operate on first-time adoption of Australian equivalents to International Financial Reporting Standards (IFRSs).

2.1.1 This Standard does not apply to an entity once it has adopted Australian equivalents to IFRSs.

2.1.2 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 21 April 2004.

3 Purpose of Standard

3.1 The purpose of this Standard is to require disclosure of the impacts of adopting Australian equivalents to IFRSs in accordance with the implementation by the Australian Accounting Standards Board of the Financial Reporting Council's strategic directive.

4 Disclosures

4.1 In respect of financial reports for annual or interim reporting periods ending on or after 30 June 2004 an entity shall disclose in its financial report:

(a) an explanation of how the transition to Australian equivalents to IFRSs is being managed; and

(b) a narrative explanation of the key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRSs.

4.1.1 Adoption of Australian equivalents to IFRSs may result in changes to accounting policies that have significant impacts on the reported financial position and financial performance of an entity. The Board considers that explanation of how the transition is being managed, for example, the entity's plans and degree of achievement of the transition and the nature of the changes in accounting policies will provide relevant information to users of financial reports to enable them to make judgments about the impacts on the reported financial position and financial performance of entities.

4.1.2 The following listing illustrates the changes in accounting policies that may lead to disclosures under this Standard and, as such, is not an exhaustive listing. Entities need to exercise judgment in identifying the accounting policy changes included in the disclosures and to consider specifically the transitional provisions of applying the requirements for first-time adoption of Australian equivalents to IFRSs. For example, the Standards where accounting policy changes may need to be considered arise under:

(a) *Share-based Payment*, entities that provide share-based compensation to employees will be required to recognise an expense in respect of the services received;

(b) *Business Combinations*, entities that amortise goodwill over its useful life will apply an impairment testing method of accounting for goodwill and cease amortising;

(c) *Income Tax*, entities are required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than accounting for the effects of timing and permanent differences between taxable income and accounting profit;

(d) *Employee Benefits*, entities that sponsor defined benefit superannuation plans will be required to recognise actuarial gains and losses relating to these plans in income as they arise and to recognise an asset or a liability in respect of these plans;

(e) *The Effects of Changes in Foreign Exchange Rates*, entities that are currently required to present financial reports in the Australian currency may select a presentation currency other than the Australian currency;

(f) *Financial Instruments: Disclosure and Presentation*, entities that have issued hybrid financial instruments currently classified as equity may be required to reclassify those instruments as debt depending on the terms and conditions of the instruments;

(g) *Impairment of Assets*, entities that currently assess whether assets are impaired by determining the recoverable amount of the asset on the basis of undiscounted future cash flows will be required to determine recoverable amount as the higher of fair value less costs to sell and value in use;

(h) *Provisions, Contingent Liabilities and Contingent Assets*, entities will be required to recognise provisions relating to retirement or disposal of long-lived assets and to change the timing of recognition of proposed dividends;

(i) *Intangible Assets*, entities that have recognised internally generated identifiable intangible assets will be required to derecognise those identifiable intangible assets which do not satisfy the recognition criteria. In addition, those entities that have revalued intangible assets, whether purchased or internally developed, will be required to derecognise those revaluations that have not been determined by reference to an active market;

(j) *Financial Instruments: Recognition and Measurement*, many entities may need to change the method of accounting for derivative financial instruments and hedging activities;

(k) *Financial Instruments: Recognition and Measurement*, many entities engaged in life insurance business will be required to treat investment contracts as financial instruments, whereas they are currently treated under AASB 1038 *Life Insurance Business;* and

(l) *Investment Property*, entities with investment properties may measure them at fair value with changes in fair value recognised in income or at cost (without revaluation), whereas they can currently be treated at cost or revalued amount under AASB 1041 *Revaluation of Non-Current Assets*.

4.2 In respect of financial reports for annual or interim reporting periods ending on or after 30 June 2005 an entity shall disclose in its financial report:

(a) any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRSs; or

(b) if the impacts in (a) above are not known or reliably estimable, a statement to that effect.

4.2.1 Entities are strongly encouraged to make the disclosures required by paragraph 4.2 in financial reports for interim and annual reporting periods ending on or after 31 December 2004 and before 30 June 2005.

4.2.2 In complying with paragraph 4.2 an entity considers disclosing an estimate of the effect of the changes on its reported financial position and financial performance. It is anticipated that most entities will be able to quantify the impacts of the changes with sufficient reliability to make disclosures covering positive and negative impacts in a manner that is not misleading. Where quantitative information is not known, or is not reliably estimable, the entity should make a statement to that effect. In this latter event the entity should also consider updating disclosures made in compliance with paragraph 4.1. Reliable estimation is impracticable when it cannot be performed after making every reasonable effort to do so.

4.2.3 The manner of presentation of quantified financial information about the impacts of adopting Australian equivalents to IFRSs is not specified in this Standard and is a matter for the entity to determine in the context of its program for implementing these requirements. The entity would provide information sufficient to allow users to understand the significant impacts on the statement of financial position, the statement of financial performance and the statement of cash flows. For example, an entity may present the quantified financial effects as a line-by-line reconciliation of financial statement items prepared on the basis of existing accounting policies and accounting policies reflecting the adoption of Australian equivalents to IFRSs. This could include explanations of the effect on each line item presented or as a reconciliation of key aggregates such as operating profit before tax, profit after tax, net profit, total assets, total liabilities and net assets including appropriate descriptions of the differences.