Australian Bureau of Statistics

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Information Paper

Impact of the Implementation of International Financial Reporting Standards on ABS Statistics

Australia

2005

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New Issue

Information Paper

Impact of the Implementation of International Financial Reporting Standards on ABS Statistics

Australia

2005

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AUSTRALIAN BUREAU OF STATISTICS

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PREFACE

The changes in financial reporting in Australia associated with Australia's adoption of International Financial Reporting Standards (IFRS) for reporting periods beginning on, or after, 1 January 2005 will have implications for a wide range of data series produced by the Australian Bureau of Statistics (ABS). This paper provides information on the timing of, and the main changes and possible impacts arising from, the adoption of the International Accounting Standards (IASs) that will affect ABS financial statistics.

Most of the macro-economic statistics produced by the ABS are based on international statistical standards and frameworks. Every effort will be made to adjust for any impacts of the adoption of the IASs in order to maintain a consistent time series in accordance with these statistical standards. For some ABS economic statistics relating to financial data collected on the basis of Australian Accounting Standards (AASBs), breaks in time series are likely to occur. These breaks will be identified, with explanations provided, in ABS publications. For the most part, however, these breaks are unlikely to be significant.

The adoption of the new accounting standards will have no impact on non-financial economic statistics obtained from collections of businesses or by way of administrative data, and statistics compiled from household surveys.

While the ABS is aware of the theoretical changes that may occur with Australia's adoption of the IFRS, the actual impacts are not known at this stage. Further information about the impact on particular data series will be included in the specific survey publications as they are released.

For more details of the issues covered in this information paper, contact Mr Mike McGrath, Director, Economic Standards and Classifications Section, on telephone (02) 6252 7967, fax (02) 6252 7788, or email: mike.mcgrath@abs.gov.au.

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ABBREVIATIONS

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AEIFRS	Australian Equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
BPM5	Balance of Payments Manual 1993 (Fifth Edition)(International Monetary Fund)
FRC	Financial Reporting Council
GFSM 2001	Government Finance Statistics Manual 2001
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
MFSM	Monetary and Financial Statistics Manual
SNA93	System of National Accounts 1993
UIG	Urgent Issues Group

CHAPTER 1 INTRODUCTION

Australia has adopted international accounting standards for reporting periods beginning on, or after, 1 January 2005. This is in response to the increased demand for improved and consistent standards of accounting globally.

The change to reporting against international standards will result in significant changes for Australian financial reporting by private and public sector entities[1]. The exact impact of the changes on a particular entity will depend on the particular circumstances of that entity.

Financial reports of entities prepared in accordance with Australian Accounting Standards (AASBs) are a major source of data for ABS statistics. The changes therefore have implications for ABS statistics. In Chapter 2 the main changes to financial reports arising from the adoption of the International Financial Reporting Standards (IFRS) are examined. Chapter 3 covers the broad implications for ABS statistics and the ABS's proposed implementation strategy, while Chapter 4 outlines possible impacts of the changes on selected ABS series.

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1 The ABS understands that the majority of AASBs apply to "(a) entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and are reporting entities; (b) general purpose financial reports of every other reporting entity; and (c) financial reports that are, or are held out to be, general purpose financial reports". (AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*)

A reporting entity is defined in the AASBs as an "entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocation of scarce resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries." (AASB 3 *Business Combinations*, Appendix A)

A general purpose financial report is a "financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs." (AASB 101 *Presentation of Financial Statements*, paragraph 11)

CHAPTER 2 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN AUSTRALIA

BACKGROUND

2.1 The Financial Reporting Council (FRC) is the statutory body responsible for providing broad oversight of the process for setting accounting and auditing standards in Australia. In July 2002 the FRC announced a directive to the Australian Accounting Standards Board (AASB) on adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. Adoption of international accounting standards aims to: promote transparency and comparability of financial reporting internationally; greatly facilitate cross-border comparisons by investors; reduce the cost of capital; and assist Australian companies wishing to raise capital or list overseas. Australia is one of many countries moving to the international accounting standards.

2.2 The AASB, the independent accounting standard setter whose primary responsibility is to develop Australian Accounting Standards for the private and public sectors, has been acting on implementing the FRC's directive to adopt the IASB Standards. On 15 July 2004 "the AASB formally made the entire 31 March 2004 suite of international accounting standards into Australian Accounting Standards, thus effectively introducing international accounting standards into Australian law for all companies and other entities for reporting periods commencing on or after 1 January 2005" (AASB Media Release, 16 July 2004).

2.3 The AASB is using the IASB Standards as "foundation" standards to which it adds material detailing the scope and applicability of a standard in the Australian environment. As the AASB issues sector-neutral standards (standards applicable to both for-profit and not-for-profit entities, including public sector entities) additions are made, where necessary, to broaden the content to cover sectors not addressed by the IASB Standards (whose focus is on for-profit entities only) and domestic, regulatory and other issues.

2.4 The IASB Standards incorporate:

- IFRS;
- International Accounting Standards (IASs); and
- Interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee.

2.5 The Australian equivalents to IFRS (AEIFRS) are:

- Accounting Standards issued by the AASB that are equivalent to IASB Standards being:
  - AASBs 1-99 corresponding to the IFRS series;
  - AASBs 101-199 corresponding to the IAS series; and
- Urgent Issues Group (UIG) Interpretations issued by the AASB corresponding to the Interpretations issued by the IASB as listed in AASB 1048 *Interpretation and Application of Standards*.

BACKGROUND *continued*

2.6 The AASB also issued ancillary AASB Standards supporting the AEIFRS (AASB 1031 *Materiality* and AASB 1048) and other AASB Standards that apply to certain types of entities (for example governments, local governments, superannuation plans and general and life insurance). The AASB is currently reviewing standards relating to governments, local governments and government departments.

2.7 By 31 March 2004, the IASB had issued a "stable platform" of new and revised standards for application from 1 January 2005. The IASB amended some standards after 31 March 2004 but prior to the 1 January 2005 implementation date. The AASB's general policy with regard to these amendments is to propose that they be mandatory for 2006 financial reports, although entities are able to adopt them for 2005 should they wish. Adding to this, AASB 6 *Exploration for and Evaluation of Mineral Resources*, was issued in December 2004 to commence on 1 January 2005.

2.8 The IASB has a number of active research projects, the outcomes of which may result in changes to the IFRS. For example, the IASB is considering a proposal for special financial reporting standards for small and medium-sized entities. As the AASB will continue to maintain parity with the IFRS, amendments will be made to the AEIFRS in the future.

IMPLEMENTATION TIME FRAME

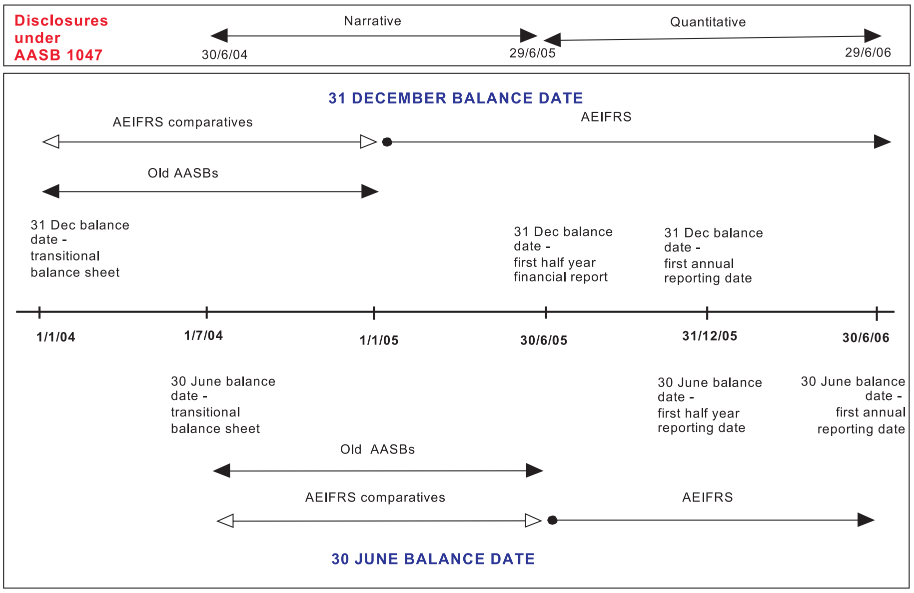
2.9 In the lead up to 2005, in order to provide users of financial reports with information on the impacts resulting from the implementation of the AEIFRS, the AASB issued AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards*. AASB 1047 requires that, in respect of financial reports for annual or interim reporting periods ending:

- on or after 30 June 2004, an entity must disclose in its financial report an explanation of how the transition to AEIFRS is being managed and a narrative explanation of the key differences arising; and
- on or after 30 June 2005, an entity must disclose any known or reliably estimable information about the impacts on the financial report had it been prepared using AEIFRS.

2.10 The AEIFRS are applicable to annual and interim reporting periods beginning on or after 1 January 2005. An entity's first annual financial report prepared under the AEIFRS must include at least one year of comparative information on the new basis, with some limited exemptions. An entity is also required to prepare, but not necessarily present, an opening AEIFRS balance sheet at the date of transition to AEIFRS. An entity is required to present reconciliations from previous Generally Accepted Accounting Principles (GAAP) to current GAAP (see AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*).

2.11 Diagram 1 illustrates the time frames involved for the adoption of AEIFRS for entities with 31 December and 30 June balance dates.

DIAGRAM 1
IMPLEMENTATION TIME FRAMES FOR AEIFRS



2.12 Entities with a 31 December balance date will be the first to make the transition with their financial reports for 2005 being their first AEIFRS-based financial reports. For most of these entities, comparative information under AEIFRS is required for 2004 and the opening AEIFRS-based balance sheet (i.e the entity's balance sheet at the date of transition to AEIFRS) will be for 1 January 2004. Under AASB 1047, these entities are required to disclose (in their annual reports for the year ended 31 December 2004) an explanation of how the transition to AEIFRS is being managed and a narrative explanation of the key differences arising.

MAIN DIFFERENCES

2.13 The development of the AEIFRS has involved:

- the preparation of:
  - thirty-five Australian equivalents to IASB Standards;
  - twelve Australian equivalents to IASB Interpretations; and
  - an Australian equivalent to the IASB's Framework; and
- revising four Australian Standards to achieve IASB compliance.

2.14 Although Australia has been harmonising its accounting standards with the IASB Standards for some time, conversion to the AEIFRS still represents significant change for Australian financial reporting. Topics covered by the IFRS that are not explicitly covered by Australian Standards are:

- recognition and measurement of financial instruments;
- intangible assets;
- accounting for post-employment benefits (defined benefit superannuation and medical benefits);
- investment property;
- obligations associated with the disposal or retirement of long-lived assets; and
- share-based payments.

MAIN DIFFERENCES *continued*

2.15 The major changes are:

- financial instruments: recognition and measurement of financial assets and liabilities, including all derivatives (AASB 139);
- intangible assets: internally generated assets such as brands and mastheads are prohibited from being recognised as assets (AASB 138);
- post-employment benefits: recognition by employer sponsors of surpluses and deficits of defined benefit plans (AASB 119);
- share-based payments: including employee share options (AASB 2);
- business combinations: changes to accounting for goodwill (AASB 3);
- impairment: applies to all assets (AASB 136);
- investment property (AASB 140);
- restoration provisions: now included (AASB 137); and
- income taxes: balance sheet approach (AASB 112).

These are discussed below and a table of differences between the AEIFRS and the superseded AASBs is provided in the Appendix. Please note that this material represents only the ABS's understanding of the changes in Australian Accounting Standards. It should not be taken as, and is not intended as being, a definitive statement of the changes and should not be relied upon as being professional accounting advice.

Financial instruments

2.16 Accounting for financial instruments is the area likely to be the most heavily impacted by the adoption of the IFRS. All financial assets and liabilities, including derivatives, will have to be recognised on the balance sheet. Previously, some financial instruments, such as derivatives, were not recorded on the balance sheet. On initial recognition all financial instruments are measured at fair value, or, in the case of a financial asset or financial liability not at fair value through profit or loss, at fair value plus transaction costs. Upon initial recognition, an entity may elect to recognise all or any of its financial instruments at fair value through profit or loss with subsequent gains and losses included in the income statement. For purposes of measurement, financial instruments are required to be classified into five categories:

- a financial asset or financial liability at fair value through profit and loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets ; or
- a financial liability not at fair value through profit or loss.

Previously, financial instruments were classified as current or non-current.

2.17 All derivatives and many financial assets will be measured at fair value through profit and loss. Loans and receivables and held-to-maturity investments will be measured at amortised cost and will be subject to a test for impairment (see discussion on impairment below). Available-for-sale financial assets will be measured at fair value with gains and losses recognised in equity. Many financial liabilities will be measured at original recorded amount less principal repayments and amortisation. Previously, financial instruments were accounted for in the same way as any other asset.

Financial instruments continued

2.18 Conditions established for determining when a financial asset or financial liability is derecognised means that there is some tightening up of rules on securitisation and other transactions recorded off the balance sheet. Special purpose entities (SPEs) created to effect securitisation of financial assets now must be consolidated in the sponsoring entity's group consolidated financial reports when the SPE is controlled by that entity.

2.19 A financial liability should be removed from an entity's balance sheet when it is extinguished, i.e. when the obligation is discharged, cancelled or expires. An in-substance defeasance would not qualify for derecognition as it would not amount to a discharge. Therefore, the liability would have to be retained on the balance sheet.

2.20 There are now explicit hedge accounting rules with five criteria to be met before an instrument qualifies for hedge accounting. Three types of hedges are identified, each with a different accounting treatment. It is necessary to test annually that a hedge is an effective hedge. If at any point in time the criteria are no longer satisfied, hedge accounting must cease on a prospective basis. The stricter hedge effectiveness requirements mean that it is likely that fewer instruments will be recognised as hedges in the future.

2.21 A financial instrument that provides a holder with the option to redeem the instrument for cash or another financial asset, the amount of which is determined based on an index or other variable that has the potential to increase or decrease, is to be classified by the issuer as a liability. This means that hybrid instruments such as resetting preference shares and some redeemable instruments of unit trusts, which entitle the unit holder to a proportionate share of the net asset value of the unit trust in cash, would have to be reclassified from equity to liabilities. This in turn will impact on company profits as the distributions from these instruments will be treated as interest as opposed to dividends.

2.22 An embedded derivative is a component of a hybrid instrument that includes both a derivative and a host contract. It should be separated from the host contract and accounted for separately under certain circumstances.

2.23 Financial instruments issued with contingent settlement provisions, e.g. where settlement is dependent upon the occurrence or non-occurrence of uncertain future events or upon the outcome of uncertain circumstances that are beyond the control of both the holder and the issuer, are to be classified by the issuer as liabilities. Previously, in Australia, such instruments have been classified as equity.

Intangible assets

2.24 The AEIFRS for intangible assets contains prescriptive rules on the treatment of intangible assets. Some of the key features are:

- internally generated goodwill, brands, mastheads, publishing titles, customer lists and items similar in substance are prohibited from being recognised as intangible assets;
- all expenditure on research must be recognised as an expense when it is incurred;
- an intangible asset arising from development must be recognised if, and only if, certain criteria are met (capitalisation was only permitted previously if recoverability was expected beyond a reasonable doubt);
- revaluations of intangible assets to fair value are restricted to determinations by reference to an active market; and

Intangible assets continued

- intangible assets with finite lives are to be amortised but those with indefinite lives are prohibited from amortisation and are subject to annual impairment tests.

2.25 The application of these requirements will result in entities not being able to recognise some of the intangible assets that previously have been on entity balance sheets such as brand names and research expenditure. An active market does not exist for most intangible assets and acquired intangible assets cannot be revalued in the absence of active markets. The derecognition of intangible assets that no longer qualify, plus the write-downs in the value of many intangible assets, could impact quite significantly on an entity's equity.

Post-employment benefits

2.26 Employer sponsors of defined benefit funds are required to recognise the net surplus or deficit of these funds on their balance sheet, based on the actuarial valuation of the obligation towards the employee and the fair value of the plan assets. Gains and losses associated with such assets and liabilities are to be recognised as revenues or expenses. Actuarial reviews are encouraged to be undertaken annually. The expense to be recognised is the cost of providing future benefits under the plan in respect of service rendered in the current and past periods. Most defined benefit funds are currently being accounted for on a cash basis, with employer sponsors recording only actual contributions payable to a plan. It is therefore expected that the adoption of the AEIFRS will result in significant changes in financial reporting for entities with defined benefit plans.

Share-based payments

2.27 An entity is required to recognise share-based payment transactions as expenses in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. An expense should be recognised when the goods are obtained and over the vesting period (period in which it becomes an entitlement) as the services are received.

2.28 The transactions should be measured at the fair value of the goods and services received or the fair value of the equity instruments granted, whichever is more readily determinable. For transactions with employees and others providing similar services, the entity is required to measure the fair value of the equity instruments granted, as it is typically not possible to estimate reliably the fair value of the employee services received. The fair value of the equity instruments granted is measured at grant date (the date at which the parties agree to this share-based arrangement). Shares are to be measured at market price and options are to be measured by using an option pricing model (which is not specified in the standards).

2.29 Previously in Australia there were no requirements for either the measurement or disclosure of the value of share-based payments. The area most likely to be significantly impacted by this change is that of employee benefits. The requirement to expense the cost of issuing shares and options to employees is expected to add significantly to the employee benefits expense of many companies.

Business combinations

2.30 The new standard specifies financial reporting by an entity when it undertakes a business combination (the bringing together of separate entities or businesses into one reporting entity). The main differences are:

- goodwill will no longer be amortised. Previous acquisitions can be grandfathered with remaining goodwill retained at existing carrying amounts, subject to adjustments associated with impairment testing. Amortisation recognised in previous years will not be reinstated;
- goodwill will be subject to rigorous and frequent impairment testing - annually or whenever there is an indication goodwill may be impaired;
- a more definitive approach to identifying and recognising intangible assets with less included in goodwill;
- recognition of contingent liabilities of the acquiree at their fair values at the acquisition date;
- recognition of "excess over cost" (negative goodwill) by the acquirer immediately in the profit and loss whereas it was written off against acquired non-monetary assets previously; and
- recognition of liabilities for restructuring only if the acquiree had, at acquisition date, an existing liability for restructuring recognised.

2.31 While not certain, it is possible that expenses will increase under the new standard. The amortisation expense may increase in the early years, despite goodwill no longer being amortised, as some intangibles may have shorter useful lives than the period previously used for goodwill amortisation. Restructuring costs that had not been previously provided for will be recognised as an expense post-acquisition. Impairment of goodwill could result in considerable write-downs.

Impairment

2.32 An asset is impaired if its carrying amount on the balance sheet exceeds its recoverable amount (the amount to be recovered through use or sale). An entity only has to determine the recoverable amount if there is some indication that an asset may be impaired.

2.33 The test of the recoverable amount will now be more rigorous and prescriptive. The recoverable amount of an asset will be the higher of its "value in use" or its fair value less cost to sell. Value in use is the net present value of future cash flows the asset is expected to generate. Future cash flows must be discounted using a risk adjusted rate. This could lead to lower asset values, with impairment write-downs impacting on profits.

2.34 Previously, impairment testing was only required for non-current assets measured at cost but the AEIFRS requires testing of all assets.

Investment property

2.35 Australia did not previously have a standard for investment property. Properties are to be measured initially at cost on an individual basis (including transaction costs) and subsequently all investment property is to be accounted for on a consistent basis, upon electing either the fair value model or the cost model. If property is carried at fair value, changes in value are recognised in income during the current year. Currently changes in value are recognised in the revaluation reserve on the balance sheet. If carried at cost, the property must be depreciated and tested for impairment.

Investment property continued

2.36 A property interest that is held by a lessee under an operating lease can be classified and accounted for by the lessee as an investment property under certain conditions, one of which is that the fair value basis is adopted. The new standard has complexities surrounding the adoption of a valuation basis that cannot be neatly summarised in a paper such as this one.

Restoration provisions

2.37 Provisions associated with the costs of disposal or retirement of long-lived assets are included in the AEIFRS, whereas they were excluded previously. This may cause differences in the timing of recognition of provisions between both sets of rules. Under the AEIFRS, a provision must be recognised in full as soon as the obligating event has occurred, usually when the asset is constructed. The liability will no longer be able to be accrued over the useful life of the asset which is the practice often followed in Australia.

Income taxes

2.38 The AEIFRS uses a balance sheet approach to calculate deferred tax balances, whereas the Australian Standard applicable until 1 January 2005 uses an income statement approach. The Australian Standard had been revised to a balance sheet approach but it was not to come into effect until 1 January 2005 and has subsequently been superseded by the AEIFRS. Under the income statement method some deferred tax balances are not recognised. As a consequence, the amount of deferred tax balances may increase under the new standard. Companies with revaluations, foreign subsidiaries or other fair value adjustments will be particularly affected.

2.39 Some Australian entities will already be applying the balance sheet approach if they elected to adopt (earlier than required) the 1999 version of AASB 1020 *Income Taxes*, which was to come into effect from 1 January 2005.

CHAPTER 3 IMPLICATIONS FOR ABS STATISTICS

INTRODUCTION

3.1 The ABS produces a range of both financial and non-financial statistics. The implementation of the AEIFRS potentially affects financial statistics. There are two broad types of financial statistics - those that are based on statistical concepts and those that are based on Australian Accounting Standards. For the former, every effort will be made to adjust for any impacts of the adoption to the AEIFRS in order to maintain consistent time series. For the latter, the adoption of the AEIFRS will cause breaks in series. Further details on the impact of the adoption of the AEIFRS on each type of financial statistics are provided below.

3.2 The adoption of AEIFRS will have no impact on non-financial economic statistics (such as building approvals, new motor vehicle sales, agricultural production etc) based on information provided by businesses or by way of administrative data. Likewise, statistics based on household collections will not be affected by the adoption of the AEIFRS.

STATISTICS BASED ON STATISTICAL CONCEPTS

3.3 The ABS collects data, directly or indirectly, from a wide range of providers across the economy, and compiles and presents the data in accordance with the macro-economic international statistical standards and frameworks developed by organisations such as the United Nations and the International Monetary Fund (IMF). Central among the standards is the United Nation's *A System of National Accounts 1993* (SNA 93). Other key standards are the *IMF's Balance of Payments Manual 1995* (BPM5), *Government Finance Statistics Manual 2001* (GFSM 2001) and *Manual on Monetary and Financial Statistics* (MFSM).

3.4 As the frameworks for the source data (for example, Australian Accounting Standards) are not necessarily harmonised with the conceptual frameworks underpinning macro-economic statistics, providers may be asked to report data on the required conceptual basis (as occurs, for example, for the Survey of International Investment and the Survey of Financial Information) or the ABS may adjust source data to the required basis. Therefore, despite changes in the source data (such as those arising from the implementation of the AEIFRS), in principle, as the international statistical standards remain unchanged, there should be no changes to ABS macro-economic statistics. In practice, however, there may be unusual movements in the reported data. The ABS treatment of the movements reported will depend on the nature of the change. For example, the ABS may: treat the change as a correction of errors in past reporting and revise the historical series accordingly; alter the way it adjusts source data to account for the changes in the source data; or exclude a new data item entirely (e.g. employee share-based payments) which is outside the conceptual frameworks.

STATISTICS BASED ON STATISTICAL CONCEPTS *continued*

3.5 Data may be drawn from secondary sources, for example, from data reported to other agencies such as the Australian Taxation Office and the Australian Prudential Regulatory Authority (APRA). The ABS is in consultation with the relevant agencies as they address the implications of the adoption of the IFRS on their collections.

STATISTICS BASED ON AUSTRALIAN ACCOUNTING STANDARDS

3.6 A range of ABS collections request data to be reported on the basis of Australian Accounting Standards and the associated outputs are published on that basis. Examples of collections in this category are the Quarterly Business Indicators Survey, Economic Activity Survey, Mineral Exploration, Petroleum Exploration, Manufacturing, Building Activity and Engineering Construction. Generally, changes in the source data caused by events such as changes to the underlying accounting standards are accepted and treated as breaks in time-series. However, some collections that are primarily Accounting Standards-based collections may also have one or more outputs that are based on statistical concepts. For example, the Quarterly Business Indicators Survey and its associated outputs are primarily Accounting Standards-based but one output, company gross operating profit, is statistical-concept based and is a key component of the national accounts' gross operating surplus measure.

3.7 As a result of the adoption of the AEIFRS, it is expected that, for collections based on accounting standards, there will be changes in concepts, data items, definitions, classifications, valuations and time of recording. Changes will be made to these ABS collections for:

- subannual collections commencing from March quarter 2005; and
- annual collections commencing with the reference period 2005-06.

3.8 The Quarterly Business Indicators Survey and the annual Economic Activity Survey have been identified as the collections in this category most likely to be affected by the adoption of the AEIFRS. As these collections are also regarded as being key data sources for the national accounts, additional questions will be included to enable any changes arising from the adoption of the AEIFRS that would appear in the reported data and would otherwise flow through to published data, to be reversed in accordance with the requirements of SNA 93. However, this will only be done for materially significant changes to minimise the impact on providers. The additional questions to be included are for the new data items under the AEIFRS - employee share options and expenses arising from actuarial reviews of defined-benefit superannuation schemes.

3.9 Generally, ABS publications for Accounting Standards-based collections will not be changed and time series will not be revised. Changes in the data will be treated as breaks in series at the time the changes occur, with the breaks identified and explanations provided where available.

3.10 For all ABS collections, the ABS will work closely with providers to:

- assist them in the completion of the ABS forms in the new environment; and
- understand the changes being made by providers to their accounting policies and the subsequent impacts on their financial reports.

ADVICE TO USERS

3.11 Each ABS publication will, as appropriate, provide advice on the impact of any changes on data items in the publication understood to be resulting from AEIFRS changes. Depending on the size of the impacts, this advice may be presented in an article or as notes to the affected data items.

3.12 For more detail about any specific series, the ABS contact officer named in the most recent issue of the publication should be contacted.

CHAPTER 4 IMPACT OF CHANGES ON SELECTED ABS SERIES

4.1 The impact of the adoption of AEIFRS will be different for each entity and it is difficult to determine a global impact. As entities are to implement AEIFRS for reporting periods beginning on or after 1 January 2005, there is a long (at least two year) transition period before all entities will be preparing financial reports under AEIFRS. Entities with a 31 December balance date are the first to make the transition from 1 January 2005 and those entities with a 30 December balance date are the last, presenting their first AEIFRS financial reports for the year ended 30 December 2006. Very little information in either a narrative or quantitative form is available to the ABS at present on the changes to individual entity's accounting policies and possible impacts. Consequently, the impact on ABS outputs for either individual data items or aggregates is unclear.

4.2 As well as the uncertainty resulting from the initial implementation, further revisions are likely over the two year transition period, and possibly beyond, as entities implement the AEIFRS and interpretations are provided by accountants, auditors, regulators and the UIG of the AASB.

4.3 The following paragraphs discuss possible impacts on particular statistical series.

National accounts

4.4 Examination of the likely changes suggests that there will be little impact on GDP or its components. In areas where there are changes that could have an impact on source data (for example, a new data item for employee share-based compensation) and the changes are outside the scope of the SNA 93, collection of additional information will enable the ABS to control for them in the compilation of the national accounts.

4.5 Every effort will be made to adjust for the impacts of the AEIFRS on national accounts estimates of gross operating surplus in order to maintain a consistent time series in accordance with SNA 93. However, in practice, it will not be possible to adjust for all potential impacts because of the limited information available to do so. It has to be expected, therefore, that some residual impact will remain in the figures as businesses make the transition to the new standards. With regard to quarterly ABS economic statistics, the fact that the transition will occur progressively from 1 January 2005 through to 30 December 2006 is expected to minimise the impacts of the changes on any one quarter.

Financial accounts

4.6 Financial accounts statistics are sourced from both ABS collections and secondary data sources.

4.7 The relevant ABS collections require providers to report data on the basis of the international statistical frameworks, SNA 93 and MFSM. Therefore, as the statistical concepts are not changing, it is expected that there will be little or no impact on the data sourced from these collections. Some of the AEIFRS changes (such as the requirements to include derivatives on balance sheets) have the potential to lead to quality

Financial accounts continued

improvements in ABS financial accounts. Unusual movements in reported data will be adjusted for in order to maintain time series in line with the concepts underpinning the international statistical frameworks.

4.8 However, for secondary data sources, it is unclear what timing and impact the changes arising from the adoption of the AEIFRS will have on those data. APRA, for example, has announced that it will not make any IFRS-related changes to its existing prudential framework before 1 July 2005. Therefore, it is likely that data from APRA will continue to be on the old basis for part, if not all, of 2005. If changes are made to secondary data sources, the ABS will assess their impact and determine the adjustments (if any) that will need to be made in order to compile financial accounts on a consistent conceptual basis.

Balance of payments and international investment statistics

4.9 International accounts statistics are collected and compiled on the basis of the international statistical framework BPM5. The requirements under AEIFRS to include all financial assets and liabilities, including derivatives, on the balance sheet and to value all derivatives, and some other financial assets and liabilities, at fair value brings about greater harmonisation of the statistical and accounting frameworks and may lead to possible data quality improvements in ABS international accounts statistics.

4.10 Adjustments will be made for any unusual movements in reported data arising from the adoption of the AEIFRS in order to maintain a consistent time series in accordance with BPM5.

Government finance statistics

4.11 Government finance statistics are mainly sourced from public sector centralised computer systems which are likely to change as public sector entities adopt the AEIFRS. In most cases, however, providers convert their data onto the basis of the relevant statistical framework, GFSM 2001, before reporting to the ABS. It is expected that there will therefore be little or no impact on ABS government finance statistical series.

Housing and lending finance statistics

4.12 There is little or no impact expected on the housing and lending finance statistics as the data are collected on the basis of statistical frameworks.

Consumer and producer price indexes

4.13 It is not expected that price indexes such as the consumer price index and producer price indexes will be affected by the adoption of the AEIFRS as the data used in the compilation of these indexes are generally not sourced from entities' accounts.

Monthly retail turnover

4.14 The adoption of the AEIFRS is likely to have only minor impacts as the changes to revenue recognition are likely to be minor for this series.

Quarterly business indicators

4.15 The ABS undertakes a range of quarterly surveys designed to collect data relating to businesses including company profits, sales, wages, inventories, capital expenditure and mineral exploration. These surveys are conducted to produce both direct measures of various economic characteristics and to support the compilation of the quarterly national accounts.

4.16 As previously discussed, every effort will be made to adjust for the impacts of the adoption of AEIFRS on the data used in the compilation of the national accounts.

Quarterly business indicators continued

4.17 For the business indicator outputs, it is expected that there will be breaks in series as providers adopt the AEIFRS as the basis for their financial reports. Changes in concepts, data items, definitions, classifications, valuation and time of recording will impact on their financial reports. In particular, increased volatility is expected in the income statement and this will impact, for example, on company profits. For other data, however, such as sales, inventories, wages, capital expenditure and mineral exploration, the breaks in time-series are expected to be minor.

Engineering construction and building activity surveys

4.18 The adoption of the AEIFRS is likely to have only a minor impact on these time-series.

Labour employer surveys

4.19 These surveys (such as those related to average weekly earnings and the wage cost indexes) are generally sourced from payroll data, rather than from accounting records. The adoption of the AEIFRS is therefore expected to have no impact on these time-series.

Annual and periodic industry surveys

4.20 ABS collections such as the Mining and Utilities, Manufacturing, Economic Activity and Service Industries surveys are based on Australian Accounting Standards. As such, there will be breaks in time-series caused by the adoption of the AEIFRS. For the most part the breaks are expected to be minor.

4.21 When information from these surveys is used in the compilation of the national accounts, every effort will be made to adjust for any impact arising from the adoption of the AEIFRS.

Research and experimental development

4.22 This survey is based on the statistical framework of the Organisation for Economic Co-operation and Development's Frascati Manual 2002. It is therefore not expected to be affected by the adoption of the AEIFRS.

APPENDIX

MAIN DIFFERENCES BETWEEN AEIFRS AND THE SUPERSEDED AUSTRALIAN ACCOUNTING STANDARDS

AEIFRS Name	*AEIFRS No.*	*Differences - AEIFRS and the superseded AASBs*
Framework	-	Different notions of income (which includes gains), revenue and expenses (which includes losses). Gains and losses on disposal of assets must be recognised on a net basis; previously these were recognised on a gross basis. Previously inflows and outflows were recognised on a gross basis.
First-time Adoption of AEIFRS	AASB 1	Prior period information presented as comparative information is to be restated for the changes in accounting policy arising from the adoption of the AEIFRS, with some limited exceptions. Previously, comparatives were not restated for a change in accounting policy.
Share-based Payment	AASB 2	New requirement to recognise share-based payments to employees at the fair value at grant date, with the expense allocated pro rata between grant date and vesting date.
Business Combinations	AASB 3	Prescribes a more definitive approach to identifying and recognising intangible assets. Recognises contingent liabilities of the acquiree. Prohibits amortisation of purchased goodwill and requires impairment testing annually or more frequently if there are signs of impairment. Requires 'excess over cost' (negative goodwill) to be recognised as a gain by the acquirer immediately in the income statement (previously recognised by reducing the fair value of the non-monetary assets acquired). Restructuring costs will generally be expensed as they are incurred (previously a provision could be made, in limited circumstances, as part of the acquisition accounting entries).
Insurance Contracts	AASB 4	The IASB's insurance contracts project is made up of two phases. IFRS 4 is Phase I and it defines insurance contracts and allows companies to continue to use national standards. Application is generally limited to fixed-fee service contracts that will meet the definition of an insurance contract. (See AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*). In relation to AASB 1038, a major change is that many contracts previously treated as life insurance contracts will have to be treated as financial instruments since they do not meet the insurance contract definition.
Non-current Assets Held for Sale and Discontinued Operations	AASB 5	New class of assets: 'held for sale' assets. These are to be measured at the lower of their carrying amount and fair value less costs to sell. They cannot be depreciated, must be reclassified from non-current to current assets and separately disclosed. Discontinued operations: Change in definition can give rise to more discontinued operations. They are disclosed later than under previous requirements. Amounts cannot be classified as extraordinary items.

AEIFRS Name	*AEIFRS No.*	*Differences - AEIFRS and the superseded AASBs*
Exploration for and Evaluation of Mineral Resources	AASB 6	The primary difference between AASB 6 and AASB 1022 relates to the scope of the Standards. AASB 6 is an activity-based Standard that relates only to the exploration for and evaluation of mineral resources. In contrast, AASB 1022 is an industry-based Standard that applies to all phases of extractive activity operations as well as specifying the treatment of inventory and sales revenue. Requires the disclosure of liability amounts and operating and investing cash flows, in addition to the disclosure of asset, expense and income amounts that are required by both AASB 6 and AASB 1022. After initial recognition, exploration and evaluation assets can be measured using the cost or revaluation models in AASB 116 and AASB 138. Subsequent measurement is not specifically addressed in AASB 1022. AASB 6 draws a distinction between exploration activities and pre-exploration activities.
Presentation of Financial Statements	AASB 101	Revised formats for the Income Statement and Balance Sheet and a separate Statement of Changes in Equity. Classification of borrowing as current if an agreement to refinance has not been finalised or a breach of covenant has not been rectified at balance date (previously these would have been classified as non-current if achieved before the completion of the financial report). Prohibits any item of income and expense being presented as extraordinary items.
Inventories	AASB 102	Minor changes only. For not-for-profit entities, inventories held for distribution are to be recorded at the lower of cost and current replacement cost (previously recorded at the lower of cost or net realisable value).
Cash Flow Statements	AASB 107	Wider definition of cash equivalents resulting in more items being regarded as cash.
Accounting Policies, Changes in Accounting Estimates and Errors	AASB 108	Voluntary changes in accounting policy and correction of prior period errors are to be accounted for retrospectively by adjusting opening retained earnings for the earliest period presented and restating of comparative information (previously adjustments were recognised in the financial statements of the period in which the change is made with no restatement of comparatives).
Events after the Balance Sheet Date	AASB 110	If the going concern assumption is no longer appropriate, then the Standard prohibits the preparation of the financial report on a going concern basis. Cessation as a going concern is to be treated as an adjusting event (i.e. an event that provides evidence of conditions that existed at the balance sheet date). Previously cessation as a going concern was treated as a non-adjusting event, i.e. an event indicative of conditions that arose after the balance sheet date.
Construction Contracts	AASB 111	No significant differences.
Income Taxes	AASB 112	Use of a balance sheet approach to calculate deferred tax balances (previously income statement approach). Amount of deferred tax balances may increase.
Segment Reporting	AASB 114	Minor changes only.
Property, Plant and Equipment	AASB 116	For profit entities who have adopted the revaluations basis, increases or decreases in revaluations are to be treated on an individual asset class (previously on a class of asset basis).
Leases	AASB 117	No significant differences. Quantitative indicators for distinguishing finance leases and operating leases are no longer included. A lessee can classify a property interest held under an operating lease as an investment property under certain conditions. For land and buildings, the land and buildings elements are considered separately for lease classification purposes.
Revenue	AASB 118	Narrower definition of revenue. Under AEIFRS there is a distinction between income and revenue, with income being the total of revenue from ordinary activities and gains. Gains are often reported net of related expenses (previously all inflows of economic benefits were revenue and were presented gross). Revenue recognition may be delayed where the capacity to benefit from the asset passes to the buyer but not the risks of ownership (previously revenue was recognised when control of the asset passed to the buyer, i.e. the rewards but not necessarily the risks).

AEIFRS Name	*AEIFRS No.*	*Differences - AEIFRS and the superseded AASBs*
Employee Benefits	AASB 119	Employer sponsors of defined benefit superannuation funds are required to recognise the net surplus or deficit of these funds on the balance sheet, based on the actuarial valuation of the obligation to the employee and the fair value of the plan assets, and gains and losses associated with such assets and liabilities as revenue or expense. Actuarial reviews are encouraged annually (previously not addressed by Australian Standards).
Accounting for Government Grants and Disclosure of Government Assistance	AASB 120	Potential delay in revenue recognition as government grants are to be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate (previously they were generally recognised in full when they were received or receivable).
		Grants related to the acquisition or construction of an asset must be presented as deferred income.
The Effects of Changes in Foreign Exchange Rates	AASB 121	Each entity is required to determine its "functional currency" and measure its results and financial position in that currency. The entity does not have a free choice of functional currency which is the currency of the primary economic environment in which the entity operates.
		Each entity may choose a presentational currency (previously required to use Australian currency).
Borrowing Costs	AASB 123	A choice is permitted between two treatments - expensing (benchmark treatment) in the period incurred or capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset with any remainder expensed. The latter treatment was previously mandated.
Related Party Disclosures	AASB 124	Disclosures may be required for key management personnel (previously directors only) and amendment of the definition of related party to include close family members (previously relatives).
Consolidated and Separate Financial Statements	AASB 127	Investments subject to temporary control are excluded (previously included).
Investments in Associates	AASB 128	Partnerships not excluded (previously excluded). The investor must have the power to participate in the financial and operating policy decisions of the investee (previously the investor only had to have the capacity to affect financial or operating policies).
		Excludes investments in venture capital organisations (previously included).
		Reporting date of the associate cannot be more than three months different to the reporting date of the investor and must be consistent year to year (previously only had to be consistent from reporting period to reporting period).
Financial Reporting in Hyperinflationary Economies	AASB 129	Only relevant in understanding the financial report of a foreign entity whose functional currency is the currency of a hyperinflationary economy, before it is translated into the presentation currency for inclusion in the financial report of an Australian entity.
Disclosures in the Financial Statements of Banks and Similar Financial Institutions	AASB 130	In-substance defeasance is not regarded as an extinguishment of debt (previously treated as extinguished).
Interest In Joint Ventures	AASB 131	Narrower definition of joint control which could result in fewer arrangements meeting the definition.
		Excludes investments by venture capital organisations, mutual funds, unit trusts and insurers in jointly controlled entities under certain conditions (previously included).
Financial Instruments: Disclosure and Presentation	AASB 132	Classification of some convertible financial instruments may change from equities to liabilities, e.g. resetting preference shares and hybrid securities may be classified as debt (previously equity).
		Where there is an instrument that specifies settlement by conversion to a number of equity securities that vary with changes in their fair value, but conversion is not mandatory, the instrument must be classified as a liability (previously may not have required a liability classification).
		Resetting preference shares and hybrid securities are likely to be classified as liabilities, previously equity.
Earnings per Share	AASB 133	Gives rise to a lower basic earnings per share where there are mandatorily convertible securities and to a higher diluted earnings per share amount where potential ordinary shares of which the conversion to, calling of, or subscription for ordinary shares, is at the option of the entity.
Interim Financial Reporting	AASB 134	Minor changes only.

AEIFRS Name	*AEIFRS No.*	*Differences - AEIFRS and the superseded AASBs*
Impairment of Assets	AASB 136	Impairment tests are more rigorous. All assets are subject at each reporting date to an indicators approach to impairment. If indication of impairment exists, recoverable amount must be estimated (previously a recoverable amount test is applied to non-current assets only). Goodwill and intangible assets with indefinite lives are subject to annual impairment tests. Discounted cash flows must be used to calculate recoverable amount (previously discounting was not required).
Provisions, Contingent Liabilities and Contingent Assets	AASB 137	Contingent assets and reimbursements are not recognised on balance sheet where the future economic benefits embodied in assets are probable but not virtually certain (previously these assets were recognised). Where restructuring involves the sale of an operation, no obligation arises for the sale of the operation until there is a binding agreement (previously a constructive obligation could arise if a detailed formal plan had been announced). Dividends liability is not recognised if the dividend is not approved (declared) by the reporting date (previously dividends could be recognised if they were determined or publicly recommended on or before the reporting date). Provisions associated with the costs of disposal or retirement of long-lived assets are included (previously excluded). Restoration or clean-up obligations associated with the retirement or disposal of long-lived assets will have to be recognised when the liability arises, and can no longer be accrued over the life of the asset (previously not specifically addressed). Where discounting is used, the increase in the carrying amount of the provision due to the passage of time must be recognised as a borrowing cost.
Intangible Assets	AASB 138	Requires expenditure on research to be expensed (previously capitalised). Development expenditure can be capitalised if certain criteria are met (previously only capitalised if recoverability was expected beyond reasonable doubt). Prohibits internally generated brands, mastheads, publishing titles and customer lists from being recognised as intangible assets. Intangible assets can only be revalued to fair value by reference to an active market. Intangible assets may have a finite or indefinite useful life. Those with finite lives are amortised and subject to annual impairment indicators approach. Those with indefinite lives cannot be amortised but must be tested annually for impairment.
Financial Instruments: Recognition and Measurement	AASB 139	All financial assets and liabilities, including derivatives, will have to be recognised on balance sheet. Many financial assets will be measured at fair value with the gains or losses included in income. The others will be measured at amortised cost and be subject to impairment. Financial instruments are to be classified for measurement purposes into five categories (previously the classification was into current/non-current). The criteria for hedge accounting are stricter and the classification of hedges has changed. An effectiveness test must be completed on an annual basis. There are specific rules setting out when financial assets can be derecognised.
Investment Property	AASB 140	Investment property must be carried either at fair value or at cost. If carried at fair value, changes in fair value are recognised in income during the current year and depreciation is not recognised. Investment property held by a lessee under an operating lease can be accounted for as investment property under certain conditions, one of which is that the fair value basis is adopted. The new standard has complexities surrounding the adoption of a valuation basis that cannot be neatly summarised in a paper such as this one.
Agriculture	AASB 141	Narrower scope of assets than the previous standard - only biological assets which relate to agricultural activities. Includes some biological assets under lease. Entities will not be required to measure biological assets at fair value if that value cannot be reliably determined (previously it was assumed that net market value could be reliably measured). Specific requirements for accounting for government grants related to biological assets measured at fair value less estimated point-of-sale costs (previously no specific requirements).

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