

Treasurer's Instruction No	209
Title	Transition to AEIFRS
Effective date	15 April 2005
Objective and Background	To set out the requirements for the transition to Australian Equivalents to International Financial Reporting Standards
Last Reviewed Date	15 April 2005

This Instruction was previously known as Treasurer's Instruction No 710 – Transition to Australian Equivalents to International Accounting Standards.

Black letter (or bold) items within these Instructions are mandatory and other plain font items are instructional or for the purpose of providing guidance only.

BACKGROUND

This Instruction covers:

- the preparation of the Australian Equivalents to International Financial Reporting Standards (AEIFRS) Transitional Balance Sheet at 1 July 2004; and
- the restatement of the financial statements for the reporting period ending 30 June 2005 in accordance with AEIFRS.

The restated 2004-05 AEIFRS financial statements will be used as comparatives for the first AEIFRS financial report for the reporting period ending 30 June 2006. The preparation of the Transitional Balance Sheet at 1 July 2004 provides opening balances on an AEIFRS basis to assist in the preparation of the 2004-05 AEIFRS financial statements.

The Transitional Balance Sheet and the restated 2004-05 AEIFRS financial statements will be referred to as “Transitional Financial Statements” for the purposes of this Instruction.

This Instruction primarily addresses recognition and measurement issues and mandates accounting treatments or disclosures where there are alternatives available under the Standards. Any elements of this Instruction that are of an ongoing nature will be continued by amendments to other Treasurer's Instructions, as appropriate. Presentation issues arising from the adoption of AEIFRS will be addressed through amendments to Treasurer's Instruction 709 *Presentation of Financial Statements*.

- (1) This Instruction applies to the Balance Sheet at 1 July 2004 prepared for transition to AEIFRS and to financial statements prepared for the reporting period ending 30 June 2005, which will be published as comparatives for the 2005-06 financial statements. The Transitional Balance Sheet and the restated 2004-05 AEIFRS**

financial statements will be referred to as “Transitional Financial Statements” for the purposes of this Instruction.

- (2) **Agencies will apply Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.**
- (3) **Financial reports will be presented in Australian currency.**
- (4) **For the purposes of compliance with AEIFRS, all agencies are designated as not-for-profit entities.**

International Accounting Standards are designed for the for-profit sector. The Australian Accounting Standards Board (AASB) has issued a single set of Accounting Standards that are sector neutral with specific provisions included to accommodate the not-for-profit sector.

AEIFRS (AASB 136 *Impairment of Assets*) defines a not-for-profit entity as an entity whose principal objective is not the generation of profit. As the principal objective of an agency is not the generation of profit, an agency is a not-for-profit entity.

AASB 116 *Property, Plant and Equipment* (AASB 116) and AASB 102 *Inventories* include specific not-for-profit requirements. In addition, the application of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and AASB 114 *Segment Reporting* has been limited to for-profit entities by the AASB. Consequently, the classification of an agency as not-for-profit will impact on financial statements in these areas. Further detail on the impact of the not-for-profit classification is provided in the Australian Accounting Standards Boards Staff Article “Not-for-profit entity requirements in Australian Accounting Standards” a copy of which is available from the AASB Website.

ACCOUNTING POLICIES

- (5) **The entire class of non-current assets will be measured on the same basis.**

Accounting Standard AASB 116 requires a class of Property, Plant and Equipment to be measured at cost or fair value.

AASB 116 does not permit a mix of cost and fair value in the Transitional Financial Statements. In addition, AASB 1 requires the accounting policies used in the Transitional Financial Statements to be applied throughout all periods presented in the first AEIFRS financial report.

In order to determine the fair value of non-current assets within a class of non-current assets currently transitioning to fair value, agencies must retrospectively determine the 1 July 2004 fair value for those classes of non-current assets, consistent with the requirements of AEIFRS.

Previously, AASB 1041 *Revaluation of Non-Current Assets* permitted agencies, moving to fair value from cost, to progressively revalue a class of Property, Plant and Equipment to fair value over the five-year period ending 30 June 2005 and, consequently, agencies were able to have a class of Property, Plant and Equipment valued at a mix of fair value and cost.

Possible methods for determining retrospective valuations include:

- obtain a valuation as at 1 July 2004 and restate the 1 July 2004 Balance Sheet accordingly;
- obtain a valuation as at 30 June 2005. If it is expected that there would be a material change in value between 1 July 2004 and 30 June 2005, request the valuer to adjust back to the 1 July 2004 value. The use of relevant indices would be appropriate. Both revaluations would be reported in the financial statements. This may increase the costs to agencies of the valuation; or
- obtain a valuation as at 30 June 2005. This amount would represent the carrying value at 30 June 2005 (or date of valuation). To determine the 1 July 2004 value, the amount of depreciation that would have applied during the year is added back to the carrying value. This method may be appropriate if it is not expected that there will be a material change in value between 1 July 2004 and 30 June 2005. For example, an asset with a carrying value of \$10 000 is fair valued at \$200 000 as at 30 June 2005. If depreciation of \$10 000 were applicable to the asset, the carrying value at 1 July 2004 would be \$210 000.

(6) All agencies will report land, buildings, infrastructure, heritage and cultural assets at fair value in their Transitional Financial Statements.

In order to comply with the requirement in Treasurer's Instruction 912 *Revaluation of Non-Current Assets*, agencies will report land and buildings, infrastructure, heritage and cultural assets at fair value.

(7) Agencies are not to apply the deemed cost option under paragraphs 16, 17 and 18(a) of AASB 1.

In accordance with Treasurer's Instruction 912 *Valuation and Revaluation of Non-Current Assets*, the option to report Property, Plant and Equipment at fair value as deemed cost is not permitted. This prohibition will continue under AEIFRS.

(8) Agencies will continue to record financial instruments at amortised cost.

Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* allows financial instruments to be valued at fair value. Agencies are not to apply the fair value option and will continue to record financial instruments held to maturity at amortised cost.

As, Government Finance Statistics (GFS) requires the valuation of financial instruments at fair value, the fair value option may be mandated at a later date, as part of the Australian Accounting Standard Board's GAAP-GFS Harmonisation Project.

- (9) Agencies will apply the exemption from the requirement to restate comparative information for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* contained in paragraph 36A of AASB 1.**

Paragraph 36A of AASB 1 provides an optional exemption from the requirement to restate comparative information in accordance with AASB 132 and AASB 139 on first time adoption in the first AEIFRS financial report.

This Instruction requires the agency to continue to apply its existing accounting policies to the comparative information within the scope of AASB 132 and AASB 139. The effect of this requirement is that the transition date for the purposes of AASB 132 and AASB 139 will be the start of the first AEIFRS reporting period rather than the beginning of the earliest period for which full comparative information is presented. For example, the AASB 132/139 transition date will be 1 July 2005 rather than 1 July 2004.

- (10) An agency will not apply the option to disclose expenses by function under paragraph 88 of AASB 101 *Presentation of Financial Statements*. Expenses will continue to be disclosed by nature in compliance with Treasurer's Instruction 709 *Presentation of Financial Statements*.**

Paragraph 88 of AASB 101 allows expenses to be classified based on either their nature or their function within the entity. Treasurer's Instruction 709 requires the disclosure of expenses by nature in the Statement of Financial Performance. This requirement will continue under AEIFRS.

CLASSES OF PROPERTY, PLANT AND EQUIPMENT

- (11) Agencies must record major items of plant and equipment in a separate asset class. Major plant and equipment are defined as high-value items of plant and equipment that are long-lived.**
- (12) Prior to 1 July 2005, major plant and equipment must be recorded at original historic cost.**

All plant and equipment is currently recorded at cost in accordance with the requirements of Treasurer's Instruction 912.

Plant and equipment may include a combination of short-lived, low-value assets and long-lived, high value assets. In general, long-lived assets are valued at fair value. From 1 July 2005, major plant and equipment will be required to be recorded at fair value.

CLASSIFICATION OF LEASES

- (13) Agencies will continue to apply the quantitative tests contained in paragraph 5.3.4 of AAS 17 *Leases* to determine whether a lease is classified as a finance lease or an operating lease.**

The AAS 17 quantitative tests, previously used to classify leases as either operating or financing, are no longer included in the AEIFRS Standard (AASB 117 *Leases*). This is consistent with a more principles based approach to leases in AEIFRS. However, the quantitative tests provide additional guidance in determining the classification of leases, and are retained for use by agencies.

IMPAIRMENT OF ASSETS

- (14) All assets, other than those carried at fair value, must be assessed to determine whether there is any indication of impairment. Plant and equipment in the General Government Sector are currently recorded at cost and must be tested for impairment.**

Where assets are recorded at fair value in the Balance Sheet, it is not necessary to test for impairment, as the carrying amount (at fair value) is equal to the recoverable amount (defined as the higher of fair value and value in use). Accordingly, the classes of assets required by Treasurer's Instruction 912 to be recorded at fair value (land and buildings, infrastructure, heritage and cultural assets) will not need to be tested for impairment.

Assets recorded at historic cost (plant and equipment) must be tested for impairment, that is, assessed to determine whether the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is assessed as the higher of fair value less costs to sell and value in use. If value in use cannot be determined (it is usually assessed with reference to expected cash flows), depreciated replacement cost can be used as a proxy for value in use.

- (15) Depreciated replacement cost will be used as the basis for determining value in use, consistent with paragraph Aus 32.1 of AASB 136 *Impairment*.**

The concept of "value in use" is difficult to apply to the General Government Sector (GGS), as cash flows are not generally earned from the use of assets. The future economic benefits of an asset of a not-for-profit entity in the GGS are not primarily dependent on the asset's ability to generate net cash inflows. Therefore, depreciated replacement cost will be used as the basis for determining value in use.

- (16) For the purposes of compliance with the requirements of paragraph Aus 32.1 of AASB 136 *Impairment of Assets*, it will be assumed that the remaining economic benefits of an asset will be replaced unless the asset has been identified as surplus.**

Paragraph Aus 32.1 of AASB 136 allows depreciated replacement cost to be used only where the remaining economic benefits of an asset will be replaced. To ensure

consistency and the application of an appropriate recoverable amount test, agencies are to assume that an asset will be replaced unless the asset has been identified as surplus.

The current requirements in the Australian Accounting Standards (AAS) and other Treasurer's Instructions in relation to property, plant and equipment are consistent with the impairment requirements in AEIFRS.

EMPLOYEE BENEFITS

- (17) Agencies are not to early adopt the Standard AASB 119 *Employee Benefits*, as issued in December 2004, for the 2004-05 financial year.**

AASB 119 *Employee Benefits* was reissued in December 2004 and applies to annual reporting periods beginning on or after 1 January 2006. The revised Standard provides additional options for the treatment of actuarial gains or losses associated with defined benefit plans.