Potential benefits and negative impacts arising for adopting AIFRS

Globalisation has led more countries to open their doors to foreign investment. As business expands across borders, both the public and private sectors are increasingly recognising the need for globally accepted accounting and auditing standards. Most major capital markets are pursuing convergence towards a single set of globally accepted standards recognising that global capital markets require high quality, globally consistent and uniform regulatory and standards regimes.

So Australia has introduced Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The transition from the previous Australia Generally Accepted Accounting principles (AGAAP) to AIFRS is a major change for companies.

Based on the research from academic and professional journals, 'the benefits of adopting IFRS are obvious' (Carroll, 2003a), it becomes a more effective communication and engagement between business, investor and other shareholders. The benefits of adoption are likely to outweigh of the negative impacts.

A1. Benefits to Australian Business

a) Quality and Comparability of Financial Statements and More Efficient Capital Markets

The benefit of adoption of IFRS is 'improvement in the efficiency of the capital markets that will arise from the existence of a set of globally acceptable accounting standards that result in high-quality, comparable and transparent financial reporting' (Alfredson, 2003a; Alfredson, 2003b). At this point, both domestic and foreign investors will be better able to comprehend the information contained in Australian financial reports and make valid comparisons with alternative investment opportunities.

Also, a large number of private and public sector entities of all kinds are obliged to prepare their financial reports under the provisions of AIFRS. These entities not only have to consider the technical issues involved in the transition to the new accounting standards, but also the potential effect on investor sentiment of the move to AIFRS. The major benefit of adopting of IFRS as 'financial statement comparability for investors, can reducing the cost of capital in Australia and improving access to foreign capital for Australian entities' (Knapp, 2003). But this benefits is contingent, it based on the how greater comparability of Australian financial reports are with those produced by overseas companies.

b) Lower Reporting Costs

The another benefit of adoption of IFRS is lower reporting costs by removing the need for production of more than one set of financial reports to satisfy the requirements of differing sets of regulations (Collett, 2001). This benefit will flow mostly to large listed companies, for smaller companies have no obvious immediate benefit but faced with massive changeover costs.(Howieson & Langfield-Smith, 2003).

c) Benefit to the Australian Stock Exchange

IFRS as the basis for listing in Australia might attract more overseas companies to list on the ASX (Haswell & McKinnon 2003), increasing the Exchange's revenue. Also it can access to overseas capital based on the value of the Exchange.

A2. Negative impacts to Australian Business

By adopting IFRS companies should start to inform and educate members and stakeholders of their financial reports, these stakeholders include 'company analysts, auditors, debt holders, IT suppliers and shareholders' (Williamson, 2003). As the shortage of accountants with IFRS skills, so the 'greater input from external experts will be needed as part of the transition' (Dodd & Sheehan, 2004). Also the company need to implementation of system changes to suit for new standards.

B1. Benefits to the Accounting Profession

a) Simplification of Accounting for Multinational

The benefit of adopting of IFRS is simplification of the accounting function for multinational companies. It would include 'more straight-forward consolidation of the financial statements of multinational groups, easier preparation of comparable internal reports for management of subsidiaries in different countries, and making appraisals of international business combinations/takeovers simpler' (Nobes & Parker 2004). But these benefits will realize only where an Australian parent's subsidiaries, or the parent of an Australian subsidiary, are domiciled in a country which has also adopted IFRS. Because the major capital markets such as the US, Japan and Canada currently not explicitly considering adoption of IFRS.

b) International Accounting Firms

Australia is one of the first countries to move to international accounting standards, obviously it will have a few years more experience than other accountants (Heathcote, 2005). Because the continuing shortage of accountants with IFRS expertise, the improved transferability of staff becomes the most advantage to international accounting firms. Also it will 'benefit from adoption of a single set of internationally accepted accounting standards' (Perera et al., 2003).

B 2. Negative impacts to the Accounting Profession

As adopting the IFRS, Professional bodies and educational institutions must amend their programs to ‘re-education preparers, users, auditors, accounting students and academics for the contents of IFRSs in time’ (Howieson & Langfield-Smith, 2003).

Another negative impacts of adopting IFRS in Australia dilutes the requirements contained in the pre-existing, highly regarded, local standards (Abernethy 2002a). Because Australia is one of the world’s leading authorities on accounting and there is more detailed guidance in Australia Accounting Standards than in International Accounting Standards. This may lead to a reduction in the status of the AASB as a national standards setter. Also it is not sure that the future standards developed by the IASB are relevant to the Australia environment. That means ‘the future of Accounting research and development, and the attendant innovation and progress it fosters, is likely to diminish as control of the standard setting process is transferred to the IASB’(Peter, 2005).

C1. Benefits to the Australia Government

Federal Government, particularly under the auspices of its CLERP reforms, obviously it's benefit by adopting IFRS. The Australian government can save $3 million per annum in the process of formulation of domestic accounting standards by adopting IFRS. As recent Australia corporate collapses such as One Tel and HIH, adoption may also benefit the government by 'providing the ability to distance itself from any future corporate collapses, which tend to raise questions about the role of accounting and the quality of accounting standards in such incidents' (Haswell & McKinnon, 2003).

Impacts on accounting policy of listed companies when adopting AIFRS

1. FLIGHT CENTRE LIMITED (FLT)-Customers Services

Flight Centre Limited recognized as one of the fastest growing travel companies in the world, it have over 7000 employees, operations in eight countries & open a new store or business every other working day. According to 2005 annual report of FLT, the ***Note 41*** disclosing "impact of adopting Australian equivalents to IFRS." Flight Centre Limited is continuing in the transition of accounting policies and financial reporting from current Australian standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS). 'The company has allocated internal resources to perform diagnostics and conduct impact analysis to isolate key areas that will be impacted by the transition to AIFRS.' The five different impacts of adopting international accounting standards for Flight Centre Limited are:

1. Income Tax: ***According to Note 41 (a)*** Flight Centre Limited and its controlled entities previously elected to apply ***AASB1020*** in accounting for income taxes. There are no material differences between the existing application and ***AASB112 'Income Taxes'***.
2. Intangible Assets: ***AASB138 'Intangible assets'*** prohibits the recognition of internally generated intangible assets such as software licences. ***According to Note 41 (b)*** The effect of this change will derecognition of intangible assets of $14,137,076 and a reduction in the asset revaluation reserve of $20,431,538. Also under ***AASB138 'Intangible assets'*** costs incurred in the research phase of an

internally generated intangible asset must be expensed. ***According to Note 41 (b)*** 'The effect of this change would derecognition of intangible assets and decrease in retained profits of $4,943,845 and $1,642,374'.

3. Impairment of assets: ***AASB136 'Impairment of assets'*** all assets are required to be reviewed and tested for impairment and revalued to recoverable amount. ***According to Note 41 (c)*** The effect of this change would reduction of intangible assets in the statement of financial performance of $6,922,403.

4. Amortisation of goodwill: ***AASB3 'Business combinations'*** goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. ***According to Note 41 (d)*** The change in accounting policy in regard to the amortisation of goodwill will result in an increase in intangible assets and a decrease in amortisation expense in the statement of financial performance.

5. Financial instruments: ***AASB139 'Financial instruments: recognition and measurement'*** all financial assets are required to be classified into one of five categories which in turn determines the accounting treatment of the item. Other financial assets current have been determined as 'available for sale' assets. It shall be measured at fair value with changes in value to be recognized directly in equity. ***According to Note 41 (e)*** The effect of this change would increase assets and reserves of the entity. There would be no effect on the statement of financial performance.

2. JB HI-FI LIMITED (JBH) –Retailing

JB HI-FI offers the world's leading brands of Hi-Fi, Speakers, Televisions, DVD's VCR's, cameras, car sound, Home Theatre and Portable Audio and continues to stock an exclusive range of specialist Hi-Fi products. It also offers Australia's largest range of video games, recorded music, DVD Music and DVD Movies at Australia's cheapest prices. JB Hi-Fi Limited has successfully managed its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (AIFRS). According to 2005 annual report of JBH, the ***Notes 38*** disclosing "impact of adopting Australian equivalents to IFRS." The following explanatory notes relate to notes 38 are the major impacts of adopting international accounting standards for JBH.

1. Business combinations: ***AASB3 'Business combinations'*** contingent liabilities that are reliably measurable are required to be recognised as part of the business combination and intangible assets are required to be recognised separately from goodwill. ***According to Note 38 (a)*** intangible assets relating to brand names and goodwill were recognised in respect of the acquisitions, such as acquisition of Clive Anthonys Pty Ltd. There were no other intangible assets or contingent liabilities requiring recognition under AIFRS.
2. Intangibles: ***According to Note 38 (c)*** On acquisition business assets of JB HI-FI, brand names of $43,094 thousand were recognized under A-GAAP but when transition to A-IFRS the value of the brand was increased by $12,928 thousand, as a result of recognising the deferred tax liability arising from the recognition of this asset. 'The directors have

reviewed the carrying value of both brand name and goodwill on consolidation and are satisfied the value of these intangibles has not been impaired during the 2005 financial year and since the acquisition date.'

3. Leases: ***AASB117 'Leases' and according to Note 38 (h)*** the consolidated entity is required to account for fixed rate increase in operating leases on a straight line basis and other current and non-current provisions at 30 June 2005 will increase by $1,016 thousand of JB HI-FI.

4. Impairment of assets: ***AASB136 'Impairment of assets'*** require the recoverable amount of assets to be assessed on a Cash Generating Unit, whereby assets are recognised in respect of the independent cash flows they generate. In addition, future cash flows are required to be discounted under A-IFRS. ***According to Note 38 (j)*** impairment losses of $412 thousand of JBH will need to be recognized in respect of leasehold improvements for the financial year ended 30 June 2005.

5. Employee Benefits: ***AASB119 'Employee Benefits'*** the consolidated entity is required to account for its annual leave provision on a current and non-current basis. ***According to Note 38 (i) the impact of JBH when adopting AIFRS is: '***the consolidated entity's current provisions decrease $628 thousand and non-current provisions increase $628 thousand at 30 June 2005'.

3.AUSTRALIAN INFRASTRUCTURE FUND (AIX)- Transportation

Hastings Funds Management Limited

Established in 1994 and built on the support and foresight of the industry and public superannuation funds, Hastings Funds Management Limited (Hastings) plays a significant role in alternative asset funds management with approximately $3.6 billion in funds under management in infrastructure, private equity, timberland and high yield debt investments. An investment in Hastings' funds provides superannuation funds, life offices and the broader investment community with direct access to unlisted investments in Australian infrastructure, such as roads, airports, electricity, gas, alternative waste treatment and timberland. AIF has commenced transitioning AIF's accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS). 'AIF has allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS.' According to 2005 annual report of AIX, the ***Notes 21*** disclosing "impact of adopting Australian equivalents to IFRS." The five different impacts of adopting international accounting standards for AIX are:

1. Financial Instruments: ***AASB 132 'Financial Instruments: Disclosures and Presentation'***, contractual obligations are regarded as liabilities. The result of this is to reduce net assets of the company. ***According to Note 21 (i) '***As unitholders of

the Scheme have the ability to redeem units from the Scheme, all unitholders' funds at 30 June 2005 will be recognised as liabilities of the Scheme rather than as equity.' And

2. Financial Instruments: ***According to Note 21 (ii)*** 'Under AGAAP gains or losses on revaluations have been taken up in the Statement of Financial Performance.' ***AASB 139 'Financial Instruments: Recognition and Measurement'***, requires investments to be recorded at fair value and gains and losses arising from changes in fair value are recorded in the Income Statement.

3. Income Taxes: ***AASB 112 'Income Taxes'***, the Company is required to use a balance sheet liability method of calculating tax balances rather than the current income statement method. ***According to Note 21 (iii)*** 'The balance sheet method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base.'

4. ***According to Note 21 (v) '***Currently foreign exchange gains and losses as a result of translation of controlled entities are taken through the Statements of Financial Performance and Distribution.' After adopting AIFRS the foreign gains will be taken to an equity reserve.

5. Business Combinations: ***According to Note 21 (vi)*** The UIG Interpretation 1013 allows entities to continue stapling arrangements for the identified parent entity and provides relief from past business combinations under ***AASB 3 'Business Combinations'*** through ***AASB 1 'First Time Adoption of Australian Equivalents to International Financial Reporting Standards'***.

4. RIVERSDALE MINING LIMITED (RIV)-Energy

Riversdale Mining Limited is a junior mining company listed on the Australian Stock Exchange. The Company has identified the Republic of South Africa as a region of significant and sustained opportunity for a junior mining company to build a portfolio of high quality assets. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. According to 2005 annual report of RIV, the ***Notes 35*** disclosing "impact of adopting Australian equivalents to IFRS." The five different impacts of adopting international accounting standards for RIV are:

1. Income Taxes: AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. ***According to Note 35 (i) '***it will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pretax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognized directly in equity'. Amounting of $756,839 deferred tax asset in respect of tax losses and timing differences will be required to be recognised.
2. Share-based Payment: ***AASB2 Share-based Payment***, equity-based compensation to employees that were vested after 1 January 2005 will be recognised as an expense in respect of the services received. ***According to Note 35 (ii)*** This will

result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation. An expense of $400,487 will be required to be recognised in the income statement for the year ended 30 June 2005.

3. Impairment of Assets: AASB 136 *Impairment of Assets* will require a change in accounting policy to determine if impairment indicators exist, and if they do exist then the company will perform an impairment assessment to determine whether any assets need to be written down. ***According to Note 35 (iii)*** The effect of this change would reduction of intangible assets in the statement of financial performance.

4. Provisions, Contingent Liabilities and Contingent Assets: AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* will require a change in accounting policy to determine if any provisions or contingent liabilities need to be recognised. ***According to Note 35 (iv)*** 'A contingent liability in respect of restoration costs associated with the RAC and ZAC mine sites. There may be a requirement to raise a provision or a contingent liability in respect of restoration costs associated with the RAC and ZAC mine sites.'

5. Financial Instruments: AASB 132 *Financial Instruments: Disclosure and Presentation* may require a change in accounting policy to reclassify a portion of the convertible notes from a debt liability to an equity amount. ***According to Note 35 (v)*** 'company is in the process of identifying the classification structure and estimate that the amount which may be reclassified to equity will be $500,000.'

Major changes to Australia financial reporting practice

As Australia has introduced AIFRS for reporting periods commencing on or after 1 January 2005 some of the new requirements will have broad impacts upon Australian businesses. The major changes to Australia financial reporting practice are use of discounted rather than undiscounted cash flows for asset impairment testing; expensing amounts relating to share-based payments; accounting for corporate sponsored defined benefit superannuating plans and reversing past revaluations or capitalized expenses in relation to certain intangible assets; consequences for business in relation to classification of financial instruments as debt rather than equity, and the effect on profits of the change to an impairment test for goodwill; fair value will increase volatility it also will affect aspects of company strategy and policy, including remuneration, acquisitions and divestments, and dividend policy. While many of the new standards' impacts will change the way a business reports its assets, liabilities, income and expenses, they will not change the underlying fundamentals of the business itself as they have no effect on the cash flow of the entity.

Also, Australian companies are required under AASB 1047, Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards, to disclose in financial reports for periods ending on or after 30 June 2004. Buffini (2004e) reports on a review by ASIC of the disclosures made under AASB 1047 by over 1,100 listed companies with 30 June 2004 balance dates which indicates 99 per cent reporting the effect of the change to IFRS, but only 10 per cent providing expected quantitative details of the impacts. While such quantified disclosures were not required in 30 June 2004 accounts, they will have to be made in those for periods ending on or after 30 June 2005.

It appears significant preparation and consideration of the impact of adoption of IFRS remains to be undertaken by Australian businesss.

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