


# how to use this book

## Updated for new Australian

This edition has been substantially rewritten to reflect the changes brought about by the decision made by the Financial Reporting Council in 2005, that Australia would adopt accounting standards issued by the International Accounting Standards Board. Significantly, we have based this fourth

edition on the new Accounting Standards (AASB standards) issued by the Australian Accounting Standards Board in mid 2004 (and applicable in 2005) rather than on the pre-existing Accounting Standards issued by the International Accounting Standards Board.



### Status of the newly converged accounting standards

Prior to the program that required Australia to adopt International Financial Reporting Standards (IFRSs) by 2005, we had an accounting standard that dealt specifically with balance sheets or, as they had become known within Australia, statements of financial position. This accounting standard was AASB 1040 'Statement of Financial Position', issued in October 1999.

Because AASB 1040 was developed at a time when Australia had embraced the international harmonisation of accounting standards, the requirements incorporated in AASB 1040 are substantially the same as those embodied in IAS 1 and IAS 8 as they apply to balance sheets. IAS 1 is entitled 'Presentation of Financial Statements' and IAS 8 is entitled 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The main differences between the International Accounting Standards and AASB 1040 relate to the correction of errors and fundamental errors (fundamental errors are errors that have such a significant effect on the financial statements of one or more prior periods that such financial statements can no longer be considered to have been reliable when issued. Reference to fundamental errors will be replaced by reference to 'material errors'). Later in this chapter we will consider how the discovery of errors that relate to subsequent periods are to be accounted for within the current period (the period in which the errors are discovered). We will appreciate the major changes there will be in Australia in how we account for prior period errors.

### STATUS OF THE NEWLY CONVERGED ACCOUNTING STANDARDS

Most chapters start with this section, which identifies the new standards that are applicable to the material covered in the chapter, as well as identifying the standards that are replaced.

New Australian Accounting Standards			
Former AASB	IAS	IFRS	Title of standard
1001	8		Accounting Policies, Changes in Estimates/Err
1002	10		Events After Balance Date
1004	18/20		Revenue and Government Grants
1005	14		Segment Reporting
1006	31		Interests in Joint Ventures
1008	17		Leases
1009	11		Construction Contracts
1010	36		Recoverable Amount for Non-Current Assets (R
1011	38		Accounting for R&D Costs (Intangible Assets)
1012	21/29		The Effects of Changes in Foreign Exchange Ra

# Accounting Standards

Since there are typically numerous differences between the new AASB standards and the IASB standards on which they are based (for example, the Australian standards tend to limit the number of alternative accounting treatments allowable and provide more explanatory material relative to the standards issued by the IASB), this strategy

has enabled us to offer students and lecturers a textbook that references the actual Standards that were passed into Australian law and that the accounting profession will be adopting from 2005. This would not be possible if we had based this text directly on the accounting standards issued by the IASB.



## Summary of main changes to the accounting standards pertaining to accounting for assets

As indicated in this chapter, the main changes brought about as a result of Australia adopting international accounting standards from 2005 are the following:

- ▶ From 2005 we have an accounting standard that provides guidance on relation to the presentation of income statements and balance sheets. This is AASB 101 'Presentation of Financial Statements'. Previously we had accounting standards that dealt separately with balance sheets and income statements, these being AASB 1040 'Statement of Financial Position' and AASB 1018 'Statement of Financial Performance'.
- ▶ We are no longer to refer to balance sheets as 'statements of financial position'. They are to revert to their traditional title—balance sheets.
- ▶ In relation to the discovery of errors in subsequent periods, we are now required to make retrospective changes to the accounts. This can be contrasted with the previous requirements within Australia whereby if it was discovered in a particular period that an accounting error had been made in a previous period (say, for example, it is discovered in 2006 that the 2005 balance sheet overstated inventory) an adjusting entry would be put through in the year in which the error was made—rather than making retrospective changes.

## ACCOUNTING STANDARDS COMPARISON

Chapter 1 contains a great check list showing the numbers and titles of the old Australian Accounting Standards, the comparable International Accounting Standards and the new Australian Accounting Standards. We have printed this again on the inside front and back covers of the book, for ready reference.

## SUMMARY OF THE MAIN CHANGES TO THE ACCOUNTING STANDARDS PERTAINING TO (THE CHAPTER TOPIC)

This section is found after the chapter Summary and provides an excellent checklist of the main changes resulting from the new (post-2005) Australian Accounting Standards.