Accounting standards update

FINPRO, Creswick

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Overview

- AASB 119
- AASB 13
- Land under roads
- Underlying result

AASB 119 Employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

11. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the **undiscounted amount** of short-term employee benefits expected to be paid in exchange for that service

AASB 119 Employee benefits

Long term employee benefits – are benefits not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service (see para 153)

Measurement is to be calculated based on the present value of expected future payments, as per superannuation plans (refer to para 56 on, particularly para 57)

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AASB 119 Employee benefits

If the employee benefit is expected to be paid after 12 months, it is to be measured at present value (per long service leave)

The implications:

- Annual leave expected to be paid after 12 months is required to be discounted
- Generally no change in classification (see AASB 101, para 69(d))
- Additional disclosure
  - Amounts expected to be paid in 12 months
  - Amounts expected to be paid after 12 months
  - Change in accounting policy note
  - Adjustment to opening retained earnings (retrospective)?

AASB 119 Employee benefits

- Other changes include additional disclosure relating to defined benefit superannuation
- See Model accounts for additional disclosures

Objective

AASB 13

- ***Defines*** fair value for financial reporting *(Comparability & Consistency)*
- Framework for ***measuring*** fair value for financial reporting *(Comparability & Consistency)*
  - Clarifies factors to be considered in estimating fair value in accordance with AASB
  - Does not establish valuation standards
- Requirements for ***disclosures*** for financial reporting about fair value *(Transparency)*

AASB 13 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying concepts

- ***Market-based measure***
  - as opposed to Entity-specific measure
  - ‘Reliability of measure’
- ***Observable inputs***
  - [Independent]
  - As opposed to Unobservable inputs

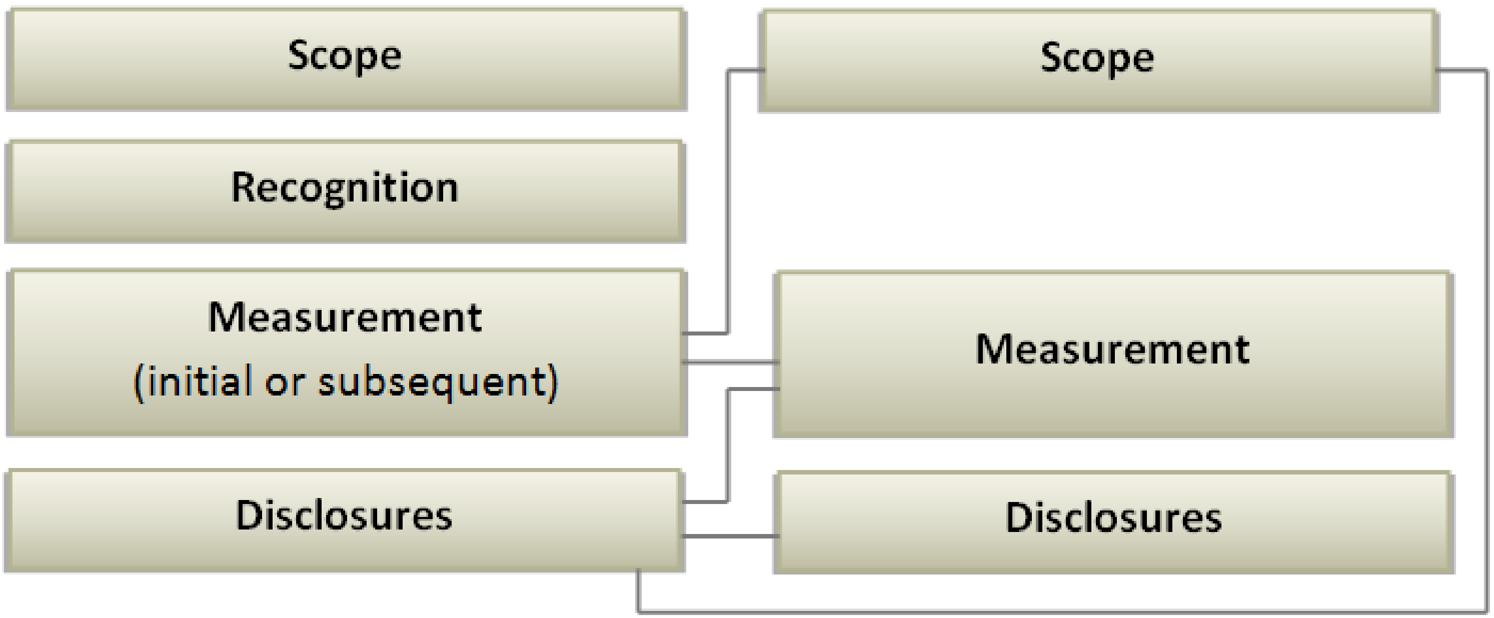
Effective date

- Years beginning on/after 1 January 2013
  - December 2013 interim periods

- Prospective application and disclosures
  - Change in estimate

Interaction with other Standards

Another Standard requires or permits Fair Value measurement or disclosures about Fair Value measurement	AASB 13



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When does AASB 13 *not* apply?

Does not apply to the following measurements and disclosures:

- AASB 2 *Share based payment* transactions
- AASB 117 *Leasing* transactions
- Measurements that are similar, but are not fair value, e.g.
  - AASB 102 Net realisable value
  - AASB 136 Value in use

Does not apply to the following disclosures:

- AASB 119 *Employee benefits* – Plan assets
- AASB 136 Impairment of assets – where recoverable amount = fair value less costs of disposal

Elements of *Fair Value Measurement*

- the **Asset or Liability** measured at
- an **Exit Price** at the measurement date
- in the **Principal (or Most Advantageous) Market**
- between **Market Participants**
- at the **Highest and Best Use** (for Non-financial assets)
- under current market conditions & in an orderly transaction
- based on **Valuation Techniques**
- using a **Fair Value Hierarchy**

AASB 13 Framework

Unit of Account

- level of (dis)aggregation in a standard (e.g. AASB 116) - stand alone or group (e.g. CGU)

Characteristics (link to market participant assumptions)

- Condition, location, restrictions on sale or use
- Ignore characteristics of an entity holding the asset

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AASB 13 Framework

Fair value is

- **the price for an orderly transaction in the principal (or most advantageous) market in current market conditions**
- **highest and best use & Valuation premise – for non-financial assets**
  - Taking physical characteristics and legal restrictions
  - Determining what is physically, legally and financially feasible
  - Market participants in the Principal (or most advantageous market) would determine a use that maximises value (Valuation premise)

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AASB 13 Framework

Valuation Technique

- Appropriate in the circumstances
  - Market approach (e.g. multiples, matrix pricing)
  - Cost approach (e.g. current replacement cost)
  - Income approach (e.g. P.V. , options pricing, multi-period excess earning)
- For which sufficient data are available
- Max relevant observable inputs
- Min use of unobservable inputs

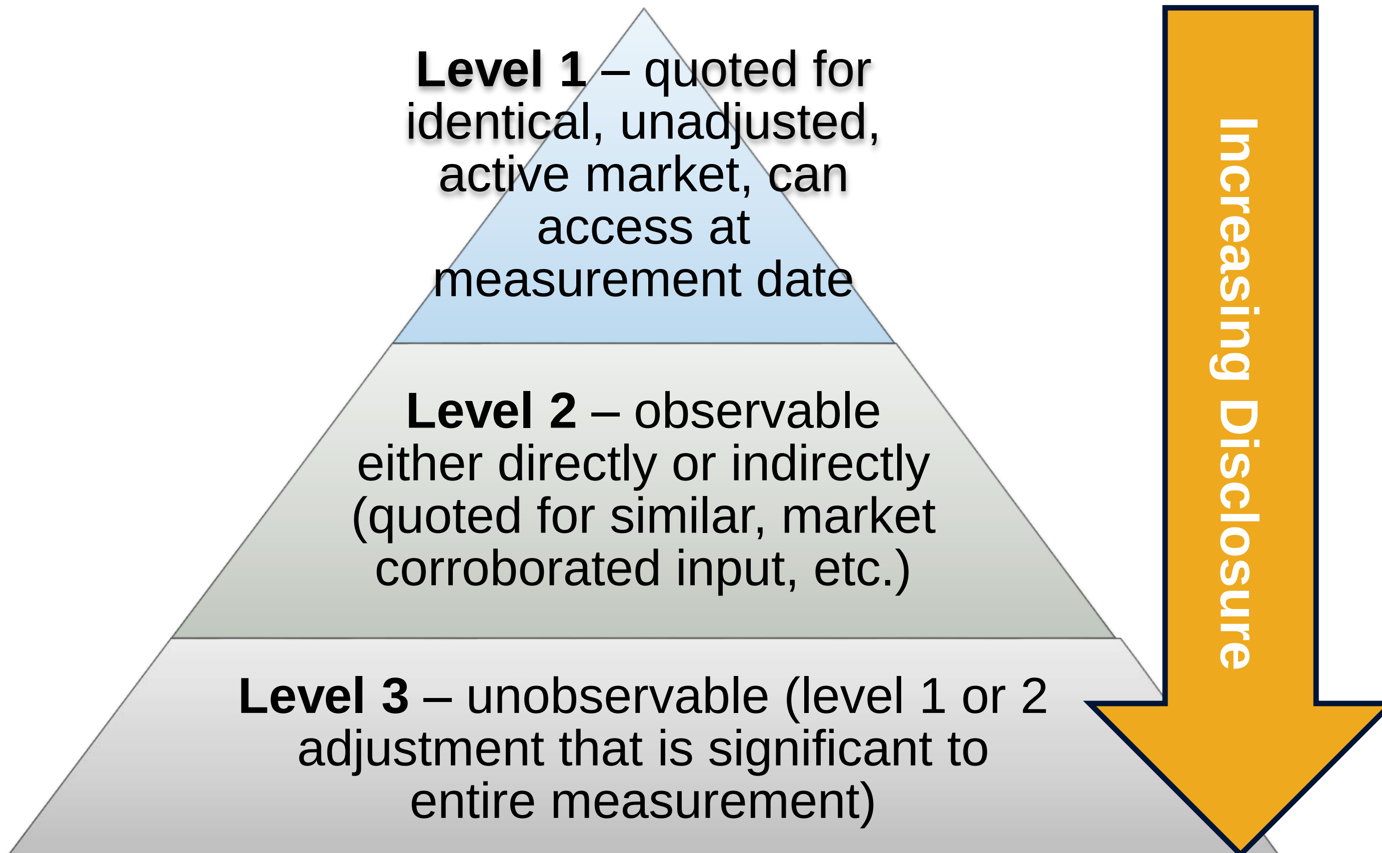
AASB 13 Framework

Adjustments

- Must be consistent with unit of account
- Must not relate to characteristic arising from entity holding the asset/liability, unless market participants would consider it
- If quoted price in active market, no adjustment (some very limited exceptions)

AASB 13 Framework

Fair Value Hierarchy



AASB 13 Summary

See summary sheet

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Examples in local government

Infrastructure assets

- AASB 116 permits use of cost or fair value after initial recognition
- AASB 13 therefore applies
- Infrastructure assets generally at fair value using cost approach, most likely level 2 in hierarchy
- Land and buildings generally at fair vaue using a market approach, may need to consider if ‘highest and best use’ where not subject to restriction
- Other plant and equipment generally at cost, no AASB 13 implication

Disclosure

- AASB 13 disclosure requirements
  - Disclose information ... ***helps users assess***:
    - Valuation techniques and inputs
    - For recurring, Level 3 ... effect of the measurement on P&L/OCI
  - To achieve objective, consider:
    - Level of detail
    - Emphasis
    - Aggregation/disaggregation
    - Addition info to quantitative

(NOTE: Recurring is when required or permitted at end of each reporting period. Non-recurring is in particular circumstances.)

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AASB 13 VAGO expectations

(adapted from Paul Martin, Director of Methodology and Standards, VAGO)

Instructions

- **Identify the potential impact of AASB 13 on your 2014 financials and develop an action plan**
- Consider early what information you are going to need about the valuation
- Give clear instructions to your valuer
- Key concepts – restrictions on the asset, highest and best use, market observable inputs, unobservable inputs
- Discuss the instructions with your auditor
- Ensure access to the valuer is available for any questions you may need to follow up

AASB 13 Workbook (extract only)

ACCOUNT	VALUATION BASE	CLASS	AASB 13 VALUATION	DOCUMENTATION REQUIRED	VALUATION TECHNIQUE	VALUATION DOCUMENTATION	REQUIRED DISCLOSURES (Note 1)
CURRENT ASSETS							
Cash and Cash Equivalents	Cost	Financial asset	Unexpected Impact (only individual circumstances)				
NON-CURRENT ASSETS							
Infrastructure	Current Replacement Cost – AABS 13 Para B8-9	Non-financial asset	Cost approach used when no evidence of comparable assets or no identified income stream. E.g. hospitals, roads or libraries.		Level 3 inputs		
Plant and Equipment	Depreciated Cost	Non-financial asset	Unexpected Impact (only individual circumstances)				

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Check out our articles on the website! These links can be sent to clients:

https://www.crowehorwath.net/AU/insights/insights-assets/aasb-13-fair-value.aspx

https://www.crowehorwath.net/AU/insights/insights-assets/aasb-13-fair-value-measurement.aspx

Land under roads

- Recognised at discounted value from 1 July 2008
- DPCD (2011) required recognition from 2014/15
- No change in position per DTLI
- Position reflected in model accounts

Implication

Need to develop an implementation team to be ready for 2014/15

Underlying result

- Schedule 3, Regulation 15
- Definitions
  - **adjusted underlying revenue** means total income other than—

    (a) non-recurrent grants used to fund capital expenditure; and

    (b) non-monetary asset contributions; and

    (c) contributions to fund capital expenditure from sources other than those referred to in paragraphs (a) and (b);
  - **adjusted underlying surplus (or deficit**) means adjusted underlying revenue less total expenditure;
  - **Indicator** – adjusted underlying surplus as a % of adjusted underlying revenue

Underlying result

Reflections

- Eliminates discretionary and inconsistent adjustments
- Monetary developer contributions included. What else?
- No adjustment to total expenditure so:
  - Defined benefit superannuation expense not adjusted
  - Depreciation on non-monetary developer contributions included but revenue is not
  - Redundancies
  - Impairment write downs
- Why?
  - Allows the organisation to tell a story
  - If we have accounting standards, why are we adjusting the result?
  - Communication rather than accounting?

QUESTIONS?

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The relationship you can count on

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