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A Discussion on International Financial Reporting Standards

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Abstract: This report explores changes in the accounting policy of AusNet and analyses the rationale for changes. Besides, the impact of changes is also analysed and measures are presented. The objective of this report is to analyse changes in the accounting policy of AusNet. This report uses both illustrative and comparative arguments, with reference to the annual report on AusNet and accounting standards. The study found that AusNet changed its accounting policy between the two years in terms of lease, revenue and financial instruments based on International Financial Reporting Standards. The reason for discussing leases and revenue is because both changes focus on contracts and have a significant effect on utilities

1. Introduction

1.1 Company Profile

AusNet Services Ltd is engaged in the energy infrastructure business in Australia. The divisions include Gas Distribution, Electricity Transmission, Mondo and Electricity Distribution. The company follows International Financial Reporting Standards, which equals the Australian Accounting Standards Board [1].

1.2 Research Framework

The report is divided into three parts. Firstly, this report introduces the background of the company. The second part is an analysis of changes in accounting policy based on International Financial Reporting Standards. Ultimately, the paper draws conclusions. The framework for the changes is based on the two main lines of changes for leases and revenue.

2. Discussion of Ifrs

2.1 Ifrs 16

IFRS 16 was issued in 2016 and came into effect in 2019. It has a number of variations for lessees, recording the leases in the balance sheet [2]. In the 2020 Annual Report, the accounting policy regarding leases was changed in reliance on IFRS 16.

2.1.1 Details

AusNet has changed as both a lessee and a lessor. As a lessee, AusNet adjusts the previous operating leases and there is no difference between operating and finance leases based on IFRS 16. Besides, the right-of-use assets and lease liabilities need to be confirmed [3]. In addition, lease payments gradually decrease as interest in lease liability increases. Furthermore, the right-of-use asset of AusNet is $103.8 million, which is equal to lease liability during the transition period. AusNet makes subsequent measures by adjusting the value of accumulated depreciation and lease liability. As a lessor, AusNet has made a clear distinction between assets that qualify as finance leases. Some assets are no longer confirmed but are treated as financial assets.

2.1.2 Impacts

Changes in accounting standards on lease based on IFRS 16 have effects on the financial statements. For the balance sheet, AusNet adjusted the portion of operating leases previously disclosed off-balance sheet to on-balance sheet. Therefore, both lease assets and financial liabilities have increased. For example, the lease liability of $103.8 includes current liability of $12.2 million and non-current liability of $91.6 million. Thus, the result of $6.1 million is calculated by subtracting the current liabilities of $12.2 million from $6.1 million repaid. The non-current liability of $88. 2million is through a non-current liability of $91.6 million plus a new lease of $0.4 million, less an amended lease of $3.8 million. Besides, the result of $89.3 million was achieved by allowing a lease liability of $103.8 million less depreciation to the value of $11.7 million, plus a new lease and less a covenant amendment of $3.8million. For a lessor, certain finance lease receivables and property, plant and equipment are derecognised according to the new definition [4]. Besides, contract assets and liabilities have been eliminated. For example, the value of $273.5 million represents the value of $284.8 million less depreciation of $11.3 million. Ultimately, the overall reduction in equity was $0.3 million. The adjustment as a lessee and lessor leads to increased assets and liabilities. However, the increase in assets is less than liabilities, resulting in a decrease in equity.

For the income statement, AusNet converts single operating expense into depreciation and interest. AusNet discounts rent and confirms long-term assets and liabilities. Besides, actual payments are used to write down long-term liabilities, with the difference charged to finance costs. For a lessor, the effective interest method on finance lease receivables is able to identify revenue.

For the cash flow statement, cash outflows from operating leases under the old standard were disclosed off-balance sheet [5]. In contrast, all principal and interest repayments on lease liabilities are included in financing activities now. For example, the reimbursement amount is $6.1 million, reflected in financing activities. Therefore, the financing cash outflow increases.

2.2 Ifrs 15

IFRS 15, issued in 2014 and effective in 2018, is followed by revenue from contracts with customers. It has new requests for timing and methods of revenue recognition. For example, the “five-step” revenue recognition model is a major breakthrough.

2.2.1 Details

AusNet recognises revenue under the new standard when control is transferred, whereas revenue is identified under the old standard when ownership of the goods is transferred [6]. Besides, AusNet uses the cumulative effect transition method to adjust the current period opening balance for transition. For example, AusNet adjusts previously confirmed revenue to deferred revenue and recognises it for the duration of the affected contract. Furthermore, contract assets and liabilities are required to be presented. In general, AusNet has enhanced its disclosure of contracts.

2.2.2 Impacts

This change influences the balance sheet and income statement, but has no material impact on the cash flow statement. For the income statement, contracts are considered to settle the performance obligation to the customer on an average basis [7]. Therefore, revenue is determined by averaging the performance of obligations over the term of the contract, which results in deferral of revenue. For example, revenue decreases by $2.7 million, which will be recognised in deferred revenue. Overall, revenue has decreased and tax has decreased to a lesser extent, net profit has decreased.

For the balance sheet, adjustments to deferred revenue and retained earnings are required. The net effect is a decrease in retained profit of $1.9 million and the cumulative transitional adjustment is a decrease in retained profits of $33.9 million. The result of $35.8 million is obtained by adjusting the cumulative transitional adjustment by $33.9 million plus the net deferred impact of $1.9million. Deferred revenue increases by $48.4 million while deferred tax liabilities decrease by $14.5 million. Therefore, total liabilities increase and total equity decreases.

3. Conclusion

This report analyses the changes in accounting policies of AusNet based on IFRS to facilitate better preparation of accounts for utility clients for team members. By exploring the changes based on IFRS, it can be concluded that IFRS are important to utilities. The analysis shows that both IFRS 15 and IFRS 16 will increase the level of disclosure, which will help to enhance the quality of financial information about utilities. As IFRS 15 and IFRS 16 focus on contracts, it is an opportunity for utilities to consider contracts carefully and to safeguard their advantages. Therefore, better standards of international accounting standards will enable utilities to improve their accounting systems.

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