Alesco Corporation Limited talks about IFRS

Alesco Corporation has sought to explain the impact of international financial reporting standards (IFRS) in its prospectus that relates to its proposal to acquire garage door manufacturer and distributor B&D Doors and Openers. Alesco's prospectus disclosure initially talks about the fact that transition to a new reporting framework is occurring and that some of the results reported beyond 1 June 2005 could vary substantially from those results reported under existing standards. The reason for Alesco mentioning the June 1 date is that the company has a May 31 financial year-end.

Changes to the way in which accounting for goodwill is regulated under IFRS will have a major impact on the figures Alesco will report in its balance sheet. It has chosen to highlight the impact of the business combinations and intangibles standards issued by the International Accounting Standards Board in March as the first of several accounting treatment changes.

"Under current Australian Accounting Standards, goodwill has to be amortised over a period no longer than 20 years. Under IFRS, goodwill will not be amortised but will be subject to an annual impairment test," Alesco states. "Alesco will be required to test the values attributed to goodwill for impairment on at least an annual basis. Such testing will require an identification of appropriate cash generating units, the allocation of goodwill to those units or combinations of units, and the ability to determine reliable estimates of the future cash flows that those units will provide."

Internally generated or internally developed intangible assets will disappear from some company financial statements — not all companies will have them — as a result of the move by the IFRS. Alesco says it will be affected by this particular development but that the acquisition of B&D business means that the company may be able to keep any cost attributed to a purchased brand on balance sheet.

"To the extent that a cost is attributed to brand names as part of the application of the principles of the purchase method of accounting, such value may be carried by Alesco as an acquired intangible asset with an indefinite useful life," says Alesco. "Although IFRS will not prescribe an amortisation period in respect of brand name intangible assets with indefinite useful lives, Alesco will be required to test the values attributed to such brand names for impairment on at least an annual basis."

Where there are no secondary markets for particular intangible assets, testing of impairment will need to be tested by using estimates of future cash flows as a part of the valuation process. The process of impairment testing may lead to Alesco having to take a write-down of some kind in relation to a brand.

Employee incentive schemes will be subject to provisions in the share-based payment standard that requires the company to value and expense options. Alesco's disclosures spell out its expectations — it will be required to hit the bottom line with expenses arising from its entry into remuneration arrangements of this kind with employees, executives and directors.

The company makes a fleeting mention of hedge accounting, which will be more tightly regulated under the new reporting regime, and points out that the hedging rules living in IAS 39 may not have a great impact on the company's financial statements in the transitional phase.

"Given the nature of Alesco's operations and the maintenance of a specific hedging program, it is not expected that there will be any substantial adverse impact on Alesco's statement of financial position."

The company states it is busy attempting to tabulate the various modifications in presentation and disclosure that will emerge as a result of transition to IFRS, but that it is at present not in the position to quantify those impacts.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.