Current Affairs Noticeboard

Woolworths reclassifies equity

Investors in Woolworths will see a change in the company's balance sheet over the next 12 months because the listed retailer has changed the way it classifies some financing arrangements.

Woolworths told the financial market recently in its preliminary financial report that investors will see Woolworths Income Notes (WIN) classified as debt rather than equity.

This change in classification is as a result of the company changing the conditions that set down how holders of the WINs will be paid.

The changes in the trust deeds that relate distributions to holder of the WINs will result in the company removing $583 million out of the equity section of its balance sheet and reclassifying them as non-current liabilities.

The total liabilities as recorded in Woolworths' financial statements will increase from $4 billion to $4.7 billion based on the company's figures released yesterday. Payments to those investors holding WINs will now be seen as a payment of a loan and recorded in the profit and loss statement as expenses rather than be described as dividends or distributions to shareholders.

Woolworths is not the only company that will be facing such changes in the way financing arrangements are recorded in company financial statements.

Some companies have issued resetting preference shares that have been reported as equity under existing accounting rules but will change to debt once Australian companies begin using more stringent rules for accounting for financial instruments that form a part of this country's move to adopt international financial reporting standards.

There are some good examples of how Australian companies are disclosing the fact they are still thinking about how some accounting treatments may change depending on the company's choice of accounting treatments. Telstra, for example, states that the way in which it accounts for the costs of borrowing could change because the new standard on borrowing costs permit an option.

Present accounting rules state Telstra must capitalise or warehouse these costs on its balance sheet and write them off over a period of time. The new standard will require the company to make a choice between capitalising or immediately writing off these costs, which total $430 million as at 30 June 2004.

‘At this stage there has been no decision on whether we will continue to capitalise interest or expense it as incurred,’ the company’s disclosure states.

Some companies are also indicating in their accounts that individual assets have not had an associated deferred tax liability recorded. Worley Group’s disclosures on IFRS adoption spell out the fact new rules related to accounting for the impact of taxation result in the company having to add a $9.1 million deferred tax liability to its balance sheet because the new accounting standards require it to reflect what it might have to pay in tax if it sold an asset – namely its trade name presently valued at $30.3 million – tomorrow.

‘This will not impact the statement of financial performance on transition date. It is not expected that there will be any further material impact as a result of the adoption of this standard,’ Worley Group’s disclosure states.

The banking sector is busily comparing notes about the quality and content of advice individual institutions are receiving from the various firms, which in the case of the financial services sector tends to be the Big Four. One concern is the speed of the turnaround of advice at the current time. The delays major companies are experiencing relate, however, to the complexity of transactions and also the seeking of an appropriate interpretation of international standards in the current environment.