



## Heads Up

### ASIC's focus areas for June year ends

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#### “Talking Points”

- ASIC is focused on the quality of financial reporting and financials should provide useful and meaningful information for investors and other users.
- ASIC has continued its focus on impairment by encouraging preparers and auditors of financial reports to carefully consider the need to impair goodwill and the appropriateness of related disclosures.
- ASIC continues to encourage preparers and auditors of financial reports to focus on the appropriateness of key accounting policy choices that can significantly affect reported results.
- ASIC also calls on directors to challenge the accounting estimates and treatments applied in the financial report and review the cash flows and assumptions used in the calculations prepared by management or experts.

#### Background

ASIC has announced its areas of focus for 30 June 2014 financial reports of listed entities and other entities of public interest with a large number of stakeholders.

ASIC have continued to highlight the importance of reporting performance, including addressing the impact of new accounting standard requirements and focus on asset values in light of the current economic climate.

ASIC encourages preparers and auditors of financial reports to carefully consider the need to impair goodwill and other assets. ASIC's continued focus on impairment stems from its findings of impairment calculations that use unrealistic cash flows and assumptions, and contain material mismatches between the cash flows used and the assets being tested for impairment.

ASIC calls on preparers and auditors to also focus on the appropriateness of key accounting policy choices that can significantly affect reported results, which include revenue recognition, expensing of costs that should not be included in asset values, and the impact of new requirements for consolidations and joint arrangements.

Directors play a significant role in ensuring that financial reports are of high quality, and that useful and meaningful information is provided to users of financial reports.

In performing their roles as directors, ASIC has called for directors to challenge the accounting estimates and treatments applied in the financial report, seek explanations and seek appropriate professional advice supporting the accounting treatments chosen, particularly where a treatment doesn't reflect their understanding of the substance of an arrangement.

Directors should also review the cash flows and assumptions used in the calculations prepared by management or experts, bearing in mind their knowledge of the business, its assets, and the future prospects of the business.

This Heads Up provides an overview of ASIC's areas of focus for 30 June 2014 financial reports and the issues directors and preparers of financial statements should consider to ensure that they have appropriately addressed ASIC's concerns.

ASIC has noted that its findings from reviews of 31 December 2013 financial reports of public interest entities will be released in June 2014.

### **ASIC areas of focus for 30 June 2014 financial reports**

ASIC's surveillance of 30 June 2014 financial reports will focus on listed entities and other entities of public interest with a large number and wide range of stakeholders considering factors like the nature and size of the business and the number of its employees.

ASIC's surveillance continues to focus on material disclosures of information useful to investors and other users of financial reports, such as key assumptions supporting accounting estimates. ASIC has noted that it does not pursue immaterial disclosures that may add unnecessary clutter to financial reports.

For 30 June 2014 financial reports, ASIC's key areas of focus are:

#### Accounting estimates

- Impairment testing and asset values – specifically, recoverability of the carrying amounts of assets such as goodwill, other intangibles and property, plant and equipment. In this regard, ASIC has drawn specific attention to the following issues:
  - Reasonableness of cash flows and assumptions; including consideration of historical cash flows, economic and market conditions, and the funding structure of the entity
  - Appropriateness of using a fair value less costs of disposal model – specifically, whether a discounted cash flow model developed for this purpose is sufficiently reliable to determine a fair value. In this regard, Deloitte believe that the use of relevant cross-checks will assist in assessing the reliability of the model
  - Congruence of cash flows to the carrying values used in the impairment testing approach
  - Identification of cash generating units at the correct level as required by AASB 136

Deloitte note that, in practice, there are a wide range of impairment issues addressed by ASIC in the performance of their reviews and the list above is not exhaustive.

- Amortisation of intangible assets – specifically amortisation periods and methods applied for intangible assets

## Accounting policy choices

- Off-balance sheet arrangements and new standards including:
  - AASB 10 *Consolidated Financial Statements* could significantly change the identification of controlled entities and the requirement to review the treatment of off-balance sheet arrangements
  - AASB 11 *Joint Arrangements* can change the accounting for joint arrangements
  - AASB 12 *Disclosure of Interests in Other Entities* includes disclosures on unconsolidated structured entities
  - AASB 13 *Fair Value Measurement* affects aspects of the determination of fair values of financial instruments and other assets
- Tax accounting – specifically, the proper understanding of both the tax and accounting treatments and the appropriate review of recoverability of any deferred tax asset
- Revenue recognition and expense deferral policies

## Key disclosures

- Sufficient level of disclosures about estimates and accounting policy judgements to allow users of the financial report to assess the reported financial position and performance of the entity

## **External Links**

- [\*\*ASIC media release \(14-120MR\) Focuses for 30 June 2014 financial reports\*\*](#)

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