



## Heads Up

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

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#### "Talking Point"

- ASIC is focused on the quality of financial reporting
- Directors should focus on disclosures of useful and meaningful information for investors and other users

#### Background

ASIC has released its findings from its review of 31 December 2012 financial reports and announced its areas of focus for 30 June 2013.

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. Directors should focus on disclosures of useful and meaningful information for investors and other users.

Some of the key areas of focus are:

- disclosure in the operating and financial review for listed entities;
- impact of new accounting standards relating to consolidated financial statements and joint arrangements;
- impairment of goodwill and other non-current assets;
- the value of financial instruments that are not traded in an active market;
- going concern assessment; and
- revenue recognition and expense deferral policies.

This Alert provides an overview of ASIC's areas of focus and the issues directors and preparers of financial statements should consider to ensure that they have appropriately addressed ASIC's concerns.

#### ASIC Areas of focus (listed entities and unlisted entities with larger numbers of users)

##### Disclosure in the operating and financial review (OFR)

Directors of listed entities should consider RG247 when preparing the OFR. The OFR should include meaningful analysis and information that would enable a user to make an assessment of the entity's financial performance and financial position. The OFR should also provide the user an understanding of the business model and strategies, and how these are expected to impact on future financial years.

For further information refer to the Deloitte publication on ASIC Regulatory Guide 247 below.

### Off-balance sheet arrangements and new standards

The new accounting standards (AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 13 *Fair Value Measurement*) will apply for the first time to financial reporting periods beginning on or after 1 January 2013. Directors should carefully review the treatment of off-balance sheet arrangements under both the pre-existing and new standards.

Entities with half-years ending 30 June 2013 are required to apply these new standards in full. While for entities with a 30 June 2013 year end, ASIC expect that disclosure of quantitative information about the impact of the new standard will be made.

### Asset values and impairment testing

ASIC continues to identify concerns regarding carrying values of assets, including goodwill, other intangibles and property, plant and equipment. As a result of ASIC enquiries, entities have made significant write downs of assets or improved their disclosures concerning impairment testing and fair values of assets.

Directors should carefully consider asset values and the appropriateness of underlying assumptions, particularly in the context of current economic conditions. The identification of assets and CGUs for impairment testing remains important, as well as ensuring the cash flows are matched with all the assets supporting these cash flows. ASIC will continue to focus on companies with substantial assets held in emerging economies.

Entities should consider any impact of the carbon tax when performing their impairment testing of non-current assets.

### Going concern

Directors need to be realistic in their assumptions about the entity's future prospects. Where an entity is assessed to be a going concern but significant uncertainty exists, the entity must ensure that its financial report adequately discloses the uncertainty and why the directors consider the entity to be a going concern. Directors should continue to review the company's ability to refinance maturing debt and compliance with loan covenants.

### Revenue recognition and expense deferral

Directors should review an entity's revenue recognition policy to ensure that revenue is recognised in accordance with the substance of the transaction. Revenue should be recognised accordingly when service has been performed or when the control of the relevant goods has been passed to the buyer.

Preparers should:

- appropriately allocate revenue between components in circumstances where revenue relates both to the sale of goods and the provision of services;
- ensure that any related assets are properly classified as financial or non-financial assets; and
- consider whether revenue on financial instruments is recognised appropriately based on the class of the instrument.

Expenses should only be deferred when there is an asset and it is probable that future economic benefit will arise. Preparers should also consider whether any of the expenses are specifically excluded from capitalisation under the intangible accounting standards.

Directors should ensure that items of income and expense are appropriately allocated between the profit or loss and other comprehensive income.

## Financial Instruments

Attention should be directed to the valuation of financial instruments, in particular where the value relies on assumptions that are not based on quoted prices or observable market data. Directors should ensure that the assumptions are supportable having regard to the nature of the financial instrument and the current economic conditions.

The methods and significant assumptions used to value financial instruments are important information for investors and preparers need to ensure that these are adequately disclosed

Directors should also consider the appropriateness of classification of assets and liabilities between current and non-current.

## Estimates and accounting policy judgements

Disclosures regarding sources of estimation uncertainty and significant judgements in applying accounting policies are important to assist users to assess the reported financial position and performance. Directors should ensure that the necessary disclosures are made and are specific to items reported in the financial statements.

## Non-IFRS financial information

There has been a substantial improvement regarding the disclosure of non-IFRS financial information.

However a small number of entities have:

- described items of expense as 'one-off' or 'non-recurring' even though these expenses are inherent to the entity's business and occur frequently;
- gave greater prominence to non-IFRS financial information in market announcements or media releases; and
- did not disclose whether such information has been subject to audit or review.

Directors should continue to ensure that any non-IFRS information released is consistent with the requirements of RG230.

## Related party disclosures

Related party information assist the users in understanding the impact of related party transactions on the entity's financial position and performance, as well as the accountability of directors and management. Directors should ensure that related party disclosures are made in accordance with the accounting standards.

## Amortisation of intangible assets

ASIC identified instances where entities did not amortise intangible assets with defined lives. Hence, directors should review the amortisation periods and methods applied for intangible assets.

## **ASIC Areas of focus (Proprietary companies)**

### Special purpose financial reports

ASIC identified instances where companies prepared special purpose financial reports on the basis that it is not a reporting entity, despite the existence of significant numbers of employees, suppliers and customers.

Companies are not permitted to prepare special purpose financial reports, if users dependent on general purpose financial reports exist and are unable to demand all of the information that they require for decision making purposes.

Preparers of financial reports should have regard to SAC 1 *Definition of the Reporting Entity* in identifying potential users of financial reports.

### Recognition and measurement

ASIC has identified instances where companies had not adequately impaired goodwill and/or other non-current assets. Preparers should ensure that entities comply with RG 85 *Reporting requirements for non-reporting entities* that require an entity to follow the recognition and measurement requirements of accounting standards, whether or not they are reporting entities.

### Other matters

ASIC has identified among the special purpose financial reports that there are a lack of going concern disclosures and accounting policies specific to the entity, and purporting to rely on ASIC's Class order 98/1417 for relief from the audit requirement, even though the entity does not comply with the relevant conditions to obtain the relief.

### Lodgement of financial reports

ASIC regularly identifies and contact proprietary companies that appear to have failed to lodge financial reports as required by the Corporations Act, where appropriate ASIC will issue companies with a notice to comply.

## **Deloitte publication**

- [\*\*ASIC RG247 Effective disclosure in an operating and financial review\*\*](#)

## **External Links**

- [\*\*ASIC website\*\*](#)

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