



## Clarity in financial reporting

### ASIC findings from the 30 June 2018 review

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#### Link to relevant ASIC media releases

[19-014MR Findings from 30 June 2018 financial reports](#)

#### Talking points

- The Australian Securities and Investments Commission (ASIC) released its findings from reviewing 30 June 2018 financial reports of 215 listed and other public interest entities, and it has made inquiries of 55 entities on 79 matters in regards to accounting treatments.
- Inquiries made by ASIC from reviews of the 30 June 2018 financial reports were in respect of a range of matters, including:
  - Impairment and other asset values
  - Revenue recognition
  - Tax accounting
  - Consolidation accounting
  - Business combinations
  - Expense deferral

For more information  
please see the following  
websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

## ASIC findings from the 30 June 2018 review

On 25 January 2019 the Australian Securities and Investments Commission (ASIC) released its findings from reviewing 30 June 2018 financial reports of 215 listed and other public interest entities, and it has made inquiries of 55 entities on 79 matters in regards to accounting treatments.

The findings are summarised in Table 1 below.

**Table 1: Inquiries made by ASIC from reviews of the 30 June 2018 financial reports**

Matter	Number of inquiries
Impairment and other asset values	28
Revenue recognition	18
Tax accounting	11
Consolidation accounting	4
Business combinations	3
Expense deferral	3
Other matters	12
<b>Total</b>	<b>79</b>

Since the ASIC's release on findings in July 2018, ASIC has issued the following media releases which result in total adjustments of approximately \$40 million on profit:

- [18-242MR Kazakhstan Potash reduces profit on issuing replacement convertible notes](#)
- [18-310MR Premier Investments writes down brand name assets.](#)

ASIC noted that the main changes to the financial reports of public interest entities as a result of the ASIC review are related to the impairment of assets, revenue recognition and expense deferral. In December 2018, ASIC announced its focus area for 31 December 2018 financial reports.



### Accessing information

See ASIC [18-364MR Major financial reporting changes and other focuses](#).

For more information on what the ASIC's focus area for 31 December 2018 financial reports see Deloitte Clarity publication [ASIC focus area for December 2018 reporting](#).

## Summary of findings

Topic	Considerations
Asset values and impairment testing	<p>ASIC will continue focusing on the recoverability of the carrying amounts of assets such as goodwill, other intangibles and property, plant and equipment. Directors and auditors should ensure the methodology and assumptions used for determining the recoverable amount are appropriate.</p> <p>Findings from the 30 June 2018 review include:</p> <ul style="list-style-type: none"><li>• Cash flow and assumptions used by entities in determining recoverable amounts are not reasonable or supportable. In particular:<ul style="list-style-type: none"><li>○ assumptions derived from external sources were not assessed for consistency and relevance, and</li><li>○ the entity's forecast cash flows did not appear reasonable and had exceeded actual cash flows for a number of reporting periods.</li></ul></li><li>• The carrying amount of cash generating units (CGUs) were not appropriately determined, in particular some entities were found to have:<ul style="list-style-type: none"><li>○ identified CGUs at too high a level despite cash inflows being largely independent;</li><li>○ not included all assets that generate cash inflows in the carrying amount of a CGU</li><li>○ incorrectly deducted liabilities from the carrying amount of a CGU.</li></ul></li><li>• Using inappropriate techniques to estimate fair value.</li></ul>

- Not having sufficient regard to impairment indicators.
- Not making sufficient disclosures such as:
  - Sensitivity analysis
  - Key assumptions
  - The valuation techniques and inputs used for deriving fair values.



#### Accessing information

See [ASIC Information Sheet 203 Impairment of non-financial assets: Materials for directors \(INFO 2013\)](#).

For further guidance, see the Deloitte's Clarity publication [Focusing on impairment issues for June 2017](#).

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Revenue Recognition	<p>ASIC has made enquiries on 17 matters related to recognition of revenue, in particular on the recognition of revenue on contracts that involve the provision of goods or services in the future, or multiple deliverables (i.e. both goods and services).</p> <p>The new revenue standard AASB 15 <i>Revenue from Contracts with Customers</i> is effective for December 2018 half-year and year-end financial reports. Entities should take extra care with implementing the standard and provide clear transition disclosures in particular on the changes to the accounting policies and their impact on the financial statements.</p>
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#### Accessing information

For further guidance on disclosure requirements of AASB 15, see Deloitte's Clarity publication [AASB 15 disclosure in the year of adoption and beyond – what you need to know](#).

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Tax accounting	<p>ASIC has made enquiries of 10 entities about their income tax accounting, including:</p> <ul style="list-style-type: none"> <li>• the adequacy of tax expense</li> <li>• whether it is probable that future taxable income will be sufficient to enable the recovery of deferred tax assets relating to tax losses.</li> </ul> <p>Entities should:</p> <ul style="list-style-type: none"> <li>• understand the tax and accounting treatments which may affect tax assets, liabilities and expenses;</li> <li>• consider any recent changes in legislation; and</li> <li>• review the recoverability of any deferred tax assets.</li> </ul>
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#### Thinking it through – Interpretation 23 *Uncertainty over Income Tax Treatments*

Interpretation 23 will be effective for financial years beginning on or after 1 January 2019, entities however should consider disclosing the expected impact in the December financial reports. The Interpretation clarifies the application of AASB 112 *Income Taxes* specifically when it is unclear how tax law applies to a particular transaction or circumstance. It requires an entity to consider the probability of whether the ATO (or other taxation authority) will or will not accept an uncertain tax treatment such as the entity's application of the thin capitalisation rules.



#### Accessing information

For further guidance on deferred tax accounting for indefinite life intangibles, see the Deloitte's Clarity publication [Deferred tax accounting for indefinite life intangibles](#).

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Consolidation accounting	ASIC has made enquiries of several entities in respect of the non-consolidation of other entities, including an entity that has treated an apparent loan securitization arrangement as off-balance sheet.
Business combinations	ASIC has made enquiries of three entities in relation to business combinations. One of the matters was in relation to transactions that have been treated as under common control which may not be appropriate.
Expense deferral	ASIC has made enquires of three entities in regards to whether amounts deferred as assets should have been charged to the income statement as expense. One of the matters was in relation to capitalizing costs incurred in anticipation of recovery under an insurance claim. Directors and auditors should ensure that expenses are only deferred where the definition of an asset and the recognition criteria are met.
Estimates and accounting policy adjustments	ASIC notes that it has observed instances where entities needed to improve the quality and completeness of disclosures in relation to estimation uncertainties, and significant judgments in applying accounting policies. All information necessary for investors and other users to understand the judgements made and their effect should be adequately disclosed, such as key assumptions, reasons for judgements, alternative treatments, and appropriate quantification.

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