

Effective communication through financial reporting



Three key matters of focus to ensure effective communication through financial reporting are:

- **Profitability** is adequately reflected
- **Assets** are measured appropriately
- **Liquidity** of the entity is meaningfully disclosed.

Key regulatory focus and emerging issues related to these matters are covered in the podcast.

Ensuring **profitability** is adequately reflected in the financial statements requires consideration and disclosure of the impacts and uncertainties the entity faces due to external factors (such as Covid-19 and climate change).

Considerations include:

- Appropriateness of Software-as-a-Service (SaaS) costs capitalised in light of the IFRIC decision issued in April 2021. Previously capitalised SaaS costs may need to be expensed where they have not been accounted for in line with the IFRIC guidance. This continues to be an ASIC focus area

[Clarity: Software-as-a-Service arrangements](#)

- Treatment of government grants received during the COVID-19 pandemic. Where material, the accounting policy for grants should be clearly disclosed together with the nature and extent of such grants including instances of voluntarily return of Jobkeeper or other amounts. For listed entities these disclosures should be consistent with the announcement required to the market around Jobkeeper

[September monthly newsletter](#)

- Appropriate use of non-IFRS profitability measures taking into consideration ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information* to ensure consistent and unbiased communication.

[Clarity: ASIC focus areas \(pg13\)](#)

[Clarity: Non-IFRS measures – enhancements or embellishments?](#)



Disclosure of key judgements and estimation uncertainties is critical for the effective communication of **asset values**, which remains a regulatory focus area especially during the current times of uncertainty.

Considerations include:

- The importance of consistent application of financial reporting judgments with risk factors disclosed outside of the financial statements as well as in the financial statements – for example impairment model assumptions and their impact on asset useful lives, the recoverability of deferred taxes and going concern
- Probability weighted assessments to address uncertainties in forecasts including relevant disclosure of the key judgements and assumptions made in measuring goodwill impairment, expected credit loss provisions, fair values of investment properties and unlisted securities as well as the recoverability of inventories
- Cash flow forecasts should be developed with reference to historical cash flows and be reasonable and supportable under current economic and market conditions.



For more information see: [Clarity: ASIC focus areas \(pg4\)](#)
[Clarity: Impairment: A diagnosis](#)

A clear understanding of the **liquidity** of an entity is important in assessing the future prospects of the entity. For this reason, investors have been key in getting the IASB in recent years to enhance liquidity disclosures in financial reports.

Considerations include:

- Focus on liquidity risk disclosures which includes the maturity analysis of financial liabilities. Considerations when performing liquidity risk disclosures include:
 - Ensuring adequate disclosures on the impact of covenants (including breaches thereof)
 - Amendments made to AASB 7 *Financial Instruments: Disclosures* and AASB 107 *Statement of Cash flow* to add disclosures around set-off, movements on borrowings and interest reforms (LIBOR).

[IAS Plus: IAS 7 amendments 2016](#)

[IAS Plus: Amendments to IFRS 7 offsetting disclosures](#)

[IAS Plus: Interest Rate Benchmark Reform - Phase 2](#)

- Due to the complexity of the accounting for financing instruments, incorrect accounting may result in material misstatements. Therefore, it is important to disclose judgments and terms relating to these complex financing instruments to provide users of financial statements with sufficient information to understand the liquidity position of the entity.

[Clarity: ASIC focus areas](#)

[Deloitte model financial statements](#)

[Australian financial reporting guide](#)



Keeping abreast of developments which will impact future reporting is important and includes matters such as:

- Ongoing climate and sustainability requirements
- [Clarity: Climate and related risks](#)
- Applicability and impact of implementing AASB 1060 Simplified Disclosures especially where Tier 2 entities have not prepared consolidated financial information for June 2021 which will be required for the comparatives
- [Clarity: AASB 1060](#)
- Emerging IFRIC decisions - you can keep up to date by subscribing to IFRIC and Deloitte's IAS plus newsletters.
- [IAS plus publications](#)
[IFRS and IFRIC updates](#)



We will keep you abreast of emerging issues in our monthly email and future client financial reporting updates – [link](#) to register for monthly emails.

Contacts

Henri Venter | Partner
hventer@deloitte.com.au

Carol Warden | Director
cwarden@deloitte.com.au