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# fasttrack

Financial Accounting-Standards & Technical

Grant Thornton

## June 30 Reporting

The June 30 financial reporting deadlines are fast approaching. These accounts will be the first annual reports prepared under A-IFRS and for many their first A-IFRS report. This edition of Fasttrack is designed to assist those preparing financial reports by highlighting the most common errors noted in the review of recent European IFRS Annual Reports.

ASIC has taken a very pro-active role in policing the introduction of A-IFRS and have already requested some entities re-issue their financial reports for failure to meet AASB 1047 disclosures in the lead up to the introduction of A-IFRS. As such, it is vitally important entities ensure full compliance with both A-IFRS and Corporations Act requirements. This Fasttrack will highlight the key areas ASIC is likely to focus on during this reporting period.

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# European financial statements: common errors

The following errors were commonly identified as part of the review of recent European IFRS Annual Reports.

- Incomplete or poorly worded accounting policies
  - IFRS accounting policies should not contain old GAAP terminology or vague language
  - accounting policies should include all significant accounting policies. Common omissions are;
    - significant judgements, key assumptions and estimates
    - definition of Exceptional items, as this is not an IAS 1 term (IAS 1 paras 108, 113,116).

- Incomplete impairment disclosures
  - the company should make the following disclosures for each cash generating unit (or group of units) that has goodwill or indefinite lived intangibles, even if no impairment is required:
    - carrying amount of goodwill allocated to the unit
    - the carrying amount of intangible assets with indefinite useful lives
    - the basis on which recoverable amount has been determined
    - description of key assumptions used
  - description of management's approach.

- Accounting in the parent entity for share-based payments in the subsidiary
  - if subsidiary employees receive equity settled share based payments the parent company should reflect an increase in investment in subsidiary for a capital contribution to the subsidiary.

- First time adoption errors
  - it should be clear which exemptions on first-time adoption have been taken
  - all adjustments should be clearly explained.

- Incorrect presentation of the Statement of Changes in Equity
  - IAS 1 allows for two formats in presenting a statement of changes in equity as a primary statement, either presenting the items in IAS1 para 96 and 97 together - the Statement of Changes in Equity or presenting only the items in para 96 - the SORIE.

  Where a company recognises actuarial gains and losses outside the income statement, IAS 19 specifically requires a SORIE to be presented as a primary statement. (IAS 1paras 96,97, IAS19 para 93B)
  - IAS 32/39 adjustment through the SORIE - this is a change in accounting policy and needs to be at the foot, and not included in the total income and expense for the period. (IAS 1 para 96(d))
  - the total income and expense for the period (excluding the prior year adjustment) needs to be split between equity and minority. (IAS 1 para 96 (c)).

- Poor application of IAS 32/39
  - the narrative required by IAS 32 around hedging and specifically hedge ineffectiveness has been poor.
  - financial guarantees are in the scope of IAS39 and should be recognised at fair value on initial recognition
  - finance costs policy should not be to charge costs as incurred, but recognise using the effective interest method
  - hedge (in)effectiveness and P&L geography should be disclosed in the segmental information
  - treasury shares need to be deducted from retained earnings and not shown as a separate reserve
  - description and disclosure of 'traditional' off-balance sheet items, for example, guarantees and acceptances which may now be on-balance sheet or where related income may be recognised in a different manner, for example, loan commitments are missing.

- New standards not disclosed as not yet applied
  - an entity must disclose information regarding new standards not yet applied.

- Related party disclosures incomplete, including transactions with
  - key management
  - associates
  - joint ventures
  - pension schemes

Note: Just because transactions with or by management are on the same terms and conditions as an external person of a similar standing, or it is the same as for other employees, this is not a valid reason under IAS 24 for non-disclosure.

# June year end: ASIC surveillance

ASIC is preparing for their 2006-2007 surveillance programme and has released preliminary details as to the specific focus of their programme for the period. ASIC will focus on areas such as;

- Disclosure of transitional changes (reconciliations from AGAAP)
- Full disclosures necessary for understanding of material items
- CLERP 9 disclosures, including Directors Report, Remuneration Report and Auditor Independence
- Smaller listed entities
- Key areas of change such as share based payments and financial instruments.

Other areas where ASIC will consider appropriate intervention in relation to non-compliance with the standards include;

- Revenue recognition
- Income tax:
  - has the balance sheet approach been applied correctly?
- Business combinations
  - correct identification of reverse acquisitions
  - accounting for intangibles on acquisition
- Intangibles
  - indefinite life intangibles - are they really indefinite ?
  - development costs (do they meet all six criteria outlined in AASB 138)
  - is the intangible separable or based on a contractual right?
  - start up costs (normally should be expensed)
  - no internally generated brands, mastheads etc
  - active market for revaluations.
- Impairment
  - identification of CGUs
  - reasonableness of assumptions used in discounted cash flow analyses
  - disclosure of key assumptions
  - have all the disclosure requirements of AASB 136 been met?
- Note disclosures
  - more extensive under A-IFRS
  - where an entity has not applied a new Australian Accounting Standard that has been issued but is not yet effective disclosure of that fact and an estimate of the possible impact on the entity (AASB 108.30).

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