



# Technical Accounting Alert

## TA 2021-08

### ASIC findings from review of 31 December 2020 financial reports

#### Introduction

The purpose of this Alert is to draw attention to the Australian Securities and Investments Commission's (ASIC) Media Release 21-135MR [ASIC review of 31 December 2020 financial reports](#), announcing the results of ASIC's inspections of 85 listed entities.

This is a timely reminder for entities and their auditors who are currently in the process of finalising 30 June 2021 financial statements.

#### Overview

ASIC's findings categories are largely in line with its focus areas for 31 December 2020 financial reports (refer to TA 2021-01). As COVID-19 continues to affect businesses, ASIC has provided further guidance on focus areas for financial reporting under COVID-19 conditions (refer [TA 2021-07](#)). The findings are divided into eight broad categories, with specific commentary below on each:

- 1 Impairment and other asset values
- 2 Other matters
- 3 Operating and Financial Review
- 4 Consolidation accounting
- 5 Lease accounting
- 6 Off-balance sheet arrangements
- 7 Revenue recognition
- 8 Provisions



## Findings

### 1 Impairment

ASIC's inquiries on assessments of the recoverability of the carrying values of assets, including goodwill, exploration and evaluation expenditure, and property, plant and equipment include reasonableness of cash flows and assumptions and disclosures.

#### Reasonableness of cash flows and assumptions

There continue to be cases where the cash flows and assumptions used by entities in determining the recoverable amounts are not reasonable or supportable having regard to matters such as historical trading results, current and forecast commodity prices, or the impact of and uncertainties due to COVID-19 conditions.

#### Disclosures

ASIC still finds some entities that are not making the necessary disclosure of:

- Key assumptions, including discount rates and growth rates; and
- For fair values, the valuation techniques and inputs used.

ASIC notes that these disclosures are important to investors and other users of financial reports given the subjectivity of these calculations/assessments. They enable user to make their own assessments about the carrying values of the entity's assets and risk of impairment given the estimation uncertainty associated with many asset valuations.

The findings listed above include findings arising from the finalisation of matters identified in ASICs reviews of 30 June 2020 financial reports.

### 2 Other matters – Expected credit losses on trade receivables

ASIC has made two inquiries in relation to expected credit losses on trade receivables. In one instance, the entity did not disclose its basis for determining expected credit losses despite indications of increased credit risk.

ASIC also found that estimated loss rates did not adequately reflect the credit risk related to long outstanding receivables, by using sufficient forward-looking information. This finding arose from the finalisation of matters identified in ASIC's reviews of 30 June 2020 financial reports.

### 3 Operating and Financial Review

ASIC has raised three inquiries about the quality of the entity's OFR, and the extent to which it complemented the financial report and told the story of how the entity's business is impacted by the COVID-19 pandemic.

In one instance, no information had been provided about business strategies and prospects and the impacts of COVID-19 on key assumptions, and in another instance, the entity continued to indicate that the impacts of COVID-19 on its business cannot be determined.

### 4 Consolidation accounting

ASIC has followed up two matters concerning the accounting for controlled entities and joint arrangements. In one of the matters, ASIC is making inquiries about the accounting for the loss of control of a subsidiary and the treatment of the remaining interest as a joint arrangement. The other matter concerns the accounting for a joint arrangement where continuing indicators exist that the entity may have control.

### 5 Lease accounting

ASIC has made inquiries with two entities about lease accounting under the standard that first applied for years commencing on or after 1 January 2019. In one instance, ASIC is inquiring about the entity's treatment of a sale



and leaseback transaction that resulted in a material gain on sale. The other instance was resolved with no changes to the financial report following further information and explanations from the entity.

## 6 Off-balance sheet arrangements

ASIC has made an inquiry about the basis for an entity's apparently derecognition of trade receivables under a debtor securitisation facility.

## 7 Revenue recognition

ASIC has followed up one matter concerning an entity's contracts with significant customers, where revenue recognition is dependent on agreed milestones related to product development.

ASIC has also inquired with an entity its connection with its accounting policy for late fees, which relates to a matter arising from the reviews of 30 June 2020 financial reports.

## 8 Provisions

ASIC has made an inquiry with one entity about potential liabilities with respect to cyber breaches.

ASIC has also inquired with two entities on the adequacy of make good provisions in connection with leased properties. In both instances, the entity has not had regard to the obligations under its lease agreements. These inquiries relate to matters arising from the reviews of 30 June 2020 financial reports.

## Material changes

When a company makes material changes to information previously provided to the market following inquiries made by ASIC, ASIC makes a public announcement. In addition to improving the level of market transparency, these announcements are intended to make directors and auditors of other companies aware of ASIC's concerns so they can avoid similar issues.



## Further information

If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your local Grant Thornton Australia contact or a member of the National Assurance Quality Team at [national.assurance.quality@au.gt.com](mailto:national.assurance.quality@au.gt.com).