



# Technical Accounting Alert

## **30 June 2010 simplifications to financial statements - Corporate Reporting Reform Bill & RDR Accounting Standard**

### Introduction

The purpose of this alert is to provide advance notice of significant simplifications that are likely to be available to many companies who are preparing 30 June 2010 financial reports. An updated Technical Accounting Alert (TA Alert) will be issued once these reforms are operational.

### Overview

It is likely that there will be some relief for companies 30 June 2010 financial statements with both Corporations Act reforms (e.g. abolition of parent company financial statements, and no financial reporting requirements for small limited by guarantee companies), and the AASB RDR (reduced disclosure regime) accounting standard which has around 50% less disclosures than the current IFRS/AASB accounting standards for non-listed companies. However both reforms are still in proposal stage and will require Parliamentary approval for the Corporations Act which could be as late as 30 June 2010, and the AASB approving its RDR accounting standard at its 9-10 June 2010 meeting.

The Corporations Amendment (Corporate Reporting Reform) Bill 2010 was covered in a February 2010 Summit client newsletter and the Bill has now been introduced into Parliament (26 May 2010) largely unchanged. The AASB's RDR accounting standard is expected to follow the proposals continued in ED 192 which pick up the IFRS for SMEs disclosures but with additional disclosures due to the AASB not adopting the IFRS for SMEs recognition and measurement simplifications. However there may be some changes from the ED 192 proposals given various submissions made in the ED 192 process and final details will not be known until the AASB meets in June.

A copy of the Summit article that provides an overview of the Corporate Reporting Reform Bill is attached (Annexure 1).

### Further information

An updated Technical Alert will be issued as soon as either the Bill or RDR accounting standard are finalised. For further information on any of the information contained in this TA Alert, please refer to your local Grant Thornton Australia contact, Keith Reilly National Head of Professional Standards at [kreilly@grantthornton.com.au](mailto:kreilly@grantthornton.com.au) or a member of the National Audit Support Team at [NAS@grantthornton.com.au](mailto:NAS@grantthornton.com.au)

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# Annexure 1

Extract from Summit Newsletter February 2010

Proposed Reforms

Reforms proposed to reduce companies' reporting obligations

[Draft Corporations Amendment \(Corporate Reporting Reform\) Bill 2010](#)

On 4 December 2009, the Federal Treasury released draft reforms to improve Australia's corporate reporting framework. It is proposed that most of these amendments to the Corporations Act (including the limited by guarantee proposals) will be able to be applied as from 30 June 2010.

The reforms are aimed at reducing reporting obligations of companies, saving both time and money for those affected by these proposed changes.

The reforms include:

## **1 A reduction on the regulatory requirements on companies limited by guarantee.**

- a The draft reforms outline a three tiered reporting framework for companies limited by guarantee (based on revenue and deductible gift recipient status). The first tier will abolish Corporations Act reporting for those companies whose annual revenues are less than \$250,000 and who do not have deductible gift recipient status
- b An audit review, rather than an audit would be permitted for those companies whose annual revenues are less than \$1,000,000 or less than \$250,000 if they have deductible gift recipient status
- c The elimination of an ability to pay dividends will reduce the usefulness of this entity type for commercial activities

## **2 Changing the circumstances in which a dividend may be paid by introducing a 'solvency' rather than a 'profits' test for the payment of dividends.**

Under these amendments, a company must not pay a dividend unless:

- a The company's assets exceed its liabilities and the excess is sufficient for the payment of the dividend
- b The payment of the dividend is fair and reasonable to the company's shareholders as a whole; and

- c The payment of the dividend will not materially prejudice the company's ability to pay its creditors

### **3 Allowing companies to more easily change their year end reporting dates.**

This will assist companies in timing and preparation of year end reports and will also assist in balancing companies and auditors work loads, moving away from peak reporting periods. It will also assist companies to match their operating and reporting cycles.

### **4 Removal of the Corporations Act requirement to prepare parent entity financial statements where consolidated financial statements are required.**

This would simplify the preparation of the consolidated financial statements resulting in only two or three columns of information being presented. Limited information regarding the parent entity would still be required by way of note disclosure.

*Note that the May Bill confirms the disclosures as follows:*

- *current and total assets;*
- *current and total liabilities;*
- *shareholders' equity, showing separately issued capital and each reserve;*
- *profit or loss;*
- *total comprehensive income;*
- *details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries;*
- *details of any contingent liabilities; and*
- *details of any contractual commitments for the acquisition of property, plant or equipment.*

### **~~5 Statutory protection of legal professional privilege on solicitor's representation letters, which assist auditors to verify a company's actual and contingent liabilities.~~**

*Note – excluded from May Bill due to technical issues*

### **6 Other changes include:**

- a Technical amendments to clarify the circumstances in which a company can cancel capital
- b Director's declaration to include a statement of compliance with IFRS
- c Improving disclosure of non-financial information in the director's report
- d Changes to the composition of the Companies Auditors and Liquidators Disciplinary Board

Implementation of these proposed amendments will result in significant changes to financial reporting, and Grant Thornton has made a submission which is supportive of the majority of

the changes proposed, with the exception of allowing a non-registered company auditor to be able to do an audit review if they are a practising member of any of the Australian accounting bodies. Grant Thornton's submission is available by clicking [here](#) and argues that an audit reviewer needs the appropriate qualifications and experience that only a registered company auditor possesses.

For more information on the draft Corporations Amendment (Corporation Reporting Reform) Bill 2010, contact your usual Grant Thornton advisor, Keith Reilly - National Head of Professional Standards at [kreilly@grantthornton.com.au](mailto:kreilly@grantthornton.com.au) or the author of this article.

Author, Michelle Spain, February 2010