Grant Thornton

Technical Accounting Alert

Carbon Tax – Financial Reporting Implications?

Introduction

The purpose of this alert is to identify any financial reporting matters that may need attention as a result of the recent announcement by the Australian Government in relation to the Carbon Tax.

Summary

On 10 July 2011, the Commonwealth Government announced the policy framework for its Carbon Scheme (the Scheme) under its Securing a Clean Energy Future policy document. This document provided further clarification around various aspects such as the pricing mechanism, who would be directly captured and financial assistance schemes available. For further details in relation to this please click here for our recent article "How will Carbon Scheme affect your Business?"

As a number of clients are in the midst of the 30 June financial reporting season, the important question to consider is whether this will have any direct impact on our current financial report? The announcement by the government provided further clarification around various key aspects within the scheme, after the failed attempt of the introduction of the Carbon Pollution Reduction Scheme (CPRS) back in February 2011. In providing this clarification, the key financial reporting matters that directors need to consider immediately are:-

1. Asset impairment
2. Significant uncertainties

A key aspect that needs to be consider so as to determine the significance of the impact of the Scheme, is whether you will fall within the Top 500 Australian Polluters (ie. emissions > 25,000 tonnes). Should you fall within this category, then your business is directly affected by the Scheme, and therefore you are likely to have a significant financial impact upon the costs within your business. However, should you only be indirectly effected, the significance of the impact will depend on the level of these costs being passed through to your business by your suppliers, and your ability to pass these onto your customers. This point needs to be considered when evaluating the matters below.

(1) Asset Impairment

Under AASB 136 "Impairment of Assets", cash flow projections should represent **management's best estimate** of the range of **economic conditions** that will exist over the remaining useful economic life of the asset, provided the assumptions are **reasonable** and supportable. This announcement has provided further clarity around the pricing mechanisms and what will be captured, however the proposed legislation is still to be subjected to debate and must be passed by both houses of Parliament.

The directors will need to determine whether this announcement has provided sufficient clarity (in their view) of the key aspects to be able to make a **reasonable estimate** of the impact of the Scheme upon its impairment models (both fair value and value in use).

Should the directors adopt the view that there is sufficient clarity, then this needs to be incorporated into there impairment models. The model will need to build in key aspects such as the fixed pricing for the first 3 years, variable pricing after this period, any costs that can passed through to customers, and financial assistance available. Note that disclosure will be required within the financial report of the key assumptions used to assess the recoverable amount.

(2) Significant Uncertainties

However, should directors be of the view that they cannot make a reasonable estimate of the impact of the Scheme due to the uncertainty, as the proposed legislation is still up for debate and needs to be passed by both Houses of Parliament, then the financial report needs to disclose these significant uncertainties as required by AASB 101 "Presentation of Financial Statements". This accounting standard requires disclosure of information about future sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets within 12 months of the reporting date. The disclosure needs to set out:

- the nature of these key uncertainties; and
- the nature and carrying amounts of the assets subject to those uncertainties at reporting date.

An example disclosure that could be used and tailored to the company's particular circumstances is as follows:

Scenario 1 – Significant Impact

On 10 July 2011, the Commonwealth Government announced the "Securing a Clean Energy Future – the Australian Government's Climate Change Plan". Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group as legislation must be voted on and passed by both houses of Parliament. In addition, as the Group will not fall within the "Top 500 Australian Polluters", the impact of the Carbon Scheme will be through indirect effects of increased prices on many production inputs and general business expenses as suppliers subject to the carbon pricing mechanism are likely to pass on their carbon price burden to their customers in the form of increased prices.

The introduction of a carbon pricing mechanism has the potential to significantly impact the assumptions used for the purpose of the value-in-use calculations in asset impairment testing. The Group has not incorporated the potential impact of any carbon price mechanism in its impairment testing at 30 June 2011. The carrying amount of the assets that could be affected by the implementation of the government's proposed emissions trading scheme as at 30 June 2011 is $XXX (2010: $XXX).

Scenario 2 – Minor Impact

On 10 July 2011, the Commonwealth Government announced the "Securing a Clean Energy Future – the Australian Government's Climate Change Plan". Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group as legislation must be voted on and passed by both houses of Parliament. In addition, as the Group will not fall within the "Top 500 Australian Polluters", the impact of the Carbon Scheme will be through indirect effects of increased prices on many production inputs and general business expenses as suppliers subject to the carbon pricing mechanism are likely to pass on their carbon price burden to their customers in the form of increased prices. Directors expect that this will not have an significant impact upon the operation costs within the business, and therefore will not have an impact upon the valuation of assets and/or going concern of the business.

Please note regardless of which view you may adopt, full disclosure will be required within the financial report to reflect the view that the directors have adopted in relation to the impact of the Scheme at the reporting date.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au