

ASIC's key areas of focus for December 2011 reporters

What's the issue?

In December, the Australian Securities and Investment Commission (ASIC) issued guidance for reporters preparing 31 December 2011 financial statements. The guidance follows ASIC's review of 30 June 2011 financial reports. In this edition of *IFRS in brief*, we consider ASIC's guidance and the impact on entities' December 2011 financial statements.

Impact on profit and loss	✓
Impact on balance sheet	✓
Impact on disclosures	✓
Impact on stakeholder comms	✓

Who does it impact?

All entities that are lodging financial statements with ASIC for the period ending 31 December 2011.

What are ASIC's new areas of focus for December reporters?

Issue: Mineral Resource Rent Tax (MRRT). The MRRT legislation was passed by the House of Representatives in November 2011. When the legislation is passed through the Senate, and substantively enacted, it will need to be accounted for in the financial statements.

Insight. Entities may need to re-measure the tax base of their depreciable mining assets, which could have a significant impact on deferred tax balances and income tax expense. ASIC expects entities to plan ahead and take into account the time needed to determine the revised tax base. In some cases, an entity may need to seek valuation advice. Entities will need to consider disclosing a post-balance date event if the legislation is passed after the balance date but before the financial statements are authorised for issue.

Issue: Rights to future income. When accounting for business combinations, entities often recognise assets which represent rights to future income. In the past, ASIC has identified situations where entities accounted for these rights as financial assets and re-valued them to fair value periodically. Entities should also take note that rights to future income (eg, management contracts, service contracts or construction contracts) are generally classified as intangible assets as there is no present contractual right to receive the payment.

Insight. ASIC has made enquiries of entities that have recognised rights to future income as financial assets at fair value instead of as intangible assets measured at amortised cost. Two entities have recently amended their classification of rights to future income. Entities should also be aware of potential changes to tax legislation which may affect the deductibility of rights to future income.

Issue: New accounting standards. AASB 108 *Accounting policies, changes in accounting estimates and errors* requires entities to disclose the expected impact of a new accounting standard which has been issued but not yet adopted.

Insight. ASIC has highlighted that a number of new accounting standards (eg, IFRS 10 *Consolidated financial statements*) have been issued recently that may have a material impact on entities' financial reports in future years. ASIC reminds entities that the impact must be disclosed under AASB 108. In our view it is not necessary to disclose new standards that are clearly not applicable or are not expected to have a material impact. The disclosure should focus on new standards that are, or could be, significant to the entity.

Issue: Carbon permits. Although there is no accounting standard dealing with emissions schemes ASIC encourages directly impacted entities that plan to purchase carbon permits to develop accounting policies and apply them consistently.

Insight: The AASB have issued a staff paper which would see carbon units, whether purchased or free of charge, recorded as intangible assets. Entities are encouraged to review the AASB's position.

ASIC's key areas of focus for December 2011 reporters ... cont'd

Issue: Alternative profit measures. ASIC released Regulatory Guide 230 *Disclosing non-IFRS financial information* in December 2011. ASIC has already contacted several entities to discuss their disclosures and will continue to contact entities where disclosures are potentially misleading.

Insight: Some entities will need to change the presentation of their statement of comprehensive income because the regulatory guide prohibits the use of an alternative profit measure. The regulatory guide also sets out requirements for disclosure of alternative profit measures in directors reports and other documents accompanying the financial report, including requirements to reconcile the profit measure to an IFRS profit and to ensure that IFRS profits are presented with at least equal prominence. Entities are encouraged to take a look at the finer detail of the regulatory guide and refer to *IFRS in brief* (16 December 2011).

What issues continue to be on ASIC'S radar this reporting season?

Issue: Intangible asset revaluation. AASB 138 *Intangible assets* permits intangible assets to be re-valued to fair value only if there is an active market for the asset. Intangible assets must be carried at cost, less amortisation and impairment, if there is no active market.

Insight. The definition of an active market in AASB 138 is strict and intangible assets with an active market are extremely rare. ASIC has stated that it is not aware of any intangible assets for which an active market exists in Australia. Entities that recognise intangible assets should ensure that the measurement basis is appropriate.

Issue: Asset impairment testing. ASIC has stated that for December 2011 accounts it will review asset values, assumptions used in impairment testing and related disclosures. ASIC expects directors to carefully consider asset values in light of their knowledge of the business and its prospects. Current events that may impact asset values include: exposures in countries experiencing economic problems; exchange rate movements; carbon tax; and the proposed MRRT.

Issue: Going concern. ASIC continues to find instances of entities failing to make adequate disclosures regarding their ability to continue as a going concern. ASIC expects directors to be realistic in their assessment of the business, its prospects and future cash flows. Consideration should also be given to the ability to refinance at an appropriate cost and future compliance with debt covenants.

Issue: Off balance sheet arrangements. ASIC has questioned arrangements where entities have not consolidated entities despite having more than 50 per cent interest. ASIC expects directors to review all off-balance sheet investments where entities hold a majority ownership. If arrangements remain off-balance sheet, ASIC expects details of the arrangement, any exposures, and reasons why they are not consolidated to be disclosed.

Issue: Boiler plate disclosures. ASIC found that some entities included 'boiler plate' disclosures that were not specific to the entity's circumstances. ASIC expects directors to ensure that disclosures are meaningful and specific to the entity. This issue arose in particular in disclosures of financial instruments and significant estimates and judgements.

Issue: Segment reporting. ASIC has found instances of entities reporting fewer segments in the financial report than in the operating and financial review and market announcements. ASIC expects directors to ensure that entities provide segment information that is based on internal reporting and to provide any other segment information needed by investors. ASIC also expects the profit measure reported in the operating and financial review to be the same as the measure reported in the segment note.

Issue: Current vs. non-current classifications. ASIC has identified situations where current liabilities have been incorrectly classified as non-current and has required entities to adjust their balance sheets. ASIC expects directors to ensure that the entity's processes are sufficiently robust to ensure correct classification, taking into account their knowledge of the business and its funding arrangements.

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