Straight Away Alert
IFRS bulletin from PwC

16 December 2019

ASIC's areas of focus - December 2019 financial reports

ASIC has published its areas of focus for December 2019 financial reports covering full year and interim reporting (see ASIC media release - 6 December 2019).

These areas of focus are principally unchanged from the prior year. The nine focus areas for ASIC are:

- new accounting standards
- impairment testing and asset values
- revenue recognition
- expense deferral
- off-balance sheet arrangements
- tax accounting
- operating and financial review
- non-IFRS financial information, and
- estimates and accounting policy judgements.

New accounting standards - specific consideration for AFSL holders

Unsurprisingly, ASIC continues to focus on the adoption of new accounting standards. For many December 2019 financial reports, this will now include the initial adoption of AASB 16 *Leases*.

ASIC has also highlighted a specific impact that the adoption of AASB 16 is expected to have on Australian Financial Services Licence (AFSL) holders. AFSLs include financial condition requirements, which include requirements regarding the net tangible assets of the licence holder. ASIC has recently expressed their view that right-of-use assets are intangible assets and hence would be excluded from net tangible assets, despite the lease liability being included in the calculation. AFSL holders are reminded that they need to report any resulting breaches to ASIC, and that these financial condition requirements are 'at all times' requirements, meaning compliance needs to be considered from the commencement of the financial period to which the new accounting standard first applied.

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New accounting standards - broader implications

It's likely the adoption of AASB 16 is already a focus for financial statement preparers and auditors due to the significant impact it can have on the financial position and performance of lessees. However, ASIC has highlighted the need to also think about the broader impacts of adopting AASB 16 given its interaction with other accounting standards: for example, has consideration been given to the deferred tax impact of recognising right-of-use assets and lease liabilities for the first time? We expect in many cases a deferred tax asset and liability will be recognised.

Another area where consideration will be required once AASB 16 has been implemented is the approach to impairment testing. Given right-of-use assets will often not generate independent cash flows, they will be included within cash generating units tested for impairment annually due to the presence of goodwill. The lease liability and its related fixed cash flows are, however, excluded where a value in use model is used. ASIC has expressed the view that it doesn't expect asset values to substantially change as a result of the adoption of AASB 16. Therefore, consideration will be required as to how to reflect the adoption of AASB 16 into impairment testing models, especially where an entity relies on value-in-use to support the carrying value of the asset.

Based on previous years, we expect ASIC to release its findings of December 2019 financial reports in mid-2020.

PwC's guidance on how the new leases standard interacts with other accounting standards is available in our In-Depth publication (17 June 2019).

For more information on this publication please contact:

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