ASIC findings from 30 June 2019 financial reports

ASIC has announced the findings of its review of the 30 June 2019 financial reports of 200 entities. In a media release (7 February 2020) and accompanying report of its findings, ASIC noted it had asked 47 entities to explain their accounting treatments across 80 matters. The majority of ASIC’s inquiries relate to the impairment of non-financial assets, followed closely by application of the recently adopted revenue standard.

Impairment of non-financial assets

Consistent with previous findings, asset values and impairment testing continue to be areas of concern for ASIC. This includes the reasonableness of cash flows and assumptions adopted in determining recoverable amounts; the determination of cash generating units; the use of management assumptions in determining fair value; and the insufficient regard for impairment indicators. ASIC indicated disclosures surrounding impairment, including key assumptions and sensitivity analysis, could also be further enhanced.

PwC View

Companies should remain vigilant for indicators of impairment, which may include significant adverse changes in market conditions or the existence of a market capitalisation deficiency. Where indicators of impairment exist an impairment test should be performed. Cash flow forecasts should be based on the latest management-approved budgets or forecasts, which should be based on reasonable and supportable assumptions that give greater weight to external evidence than internal assumptions.

Revenue

Revenue recognition was an area of interest for ASIC, particularly where revenue contracts involved multiple performance obligations and had one or more obligations that were yet to be fulfilled.
Identifying performance obligations is often an area requiring significant judgement, particularly where multiple products or services are provided to customers in a single arrangement. Revenue recognition patterns may differ based on the number of performance obligations a company identifies, and how the obligations are fulfilled. Accordingly, companies should consider how their revenue recognition profile may differ to existing contracts when they enter into new types of sales arrangements.

ASIC also challenged companies regarding their disclosures following the adoption of the new revenue standard. In particular, ASIC was looking for greater clarity in the disclosure of the revenue recognition accounting policy, and identified instances where revenue had not been appropriately disaggregated with regard to how the nature, timing and uncertainty of revenue are affected by economic factors.

**New accounting standards**

As part of their review, ASIC noted that the impact of adopting the new leases standard could have been better explained, including the nature and cause of any changes. As confirmed in its recent areas of focus publication (more information), ASIC will be monitoring the adoption of the leases standard through the next reporting season. Companies applying the leases standard for the first time should ensure their transitional disclosures provide users with sufficient understanding of how the new standard has affected the financial statements, and the judgements made in transitioning to the new standard.

Further information: PwC’s revenue website; PwC’s leases in-depth publication
Source: ASIC

For more information on this publication please contact:

<table>
<thead>
<tr>
<th>Regina Fikkers</th>
<th>Julian Griffiths</th>
<th>Rachel How</th>
<th>Matt Stott</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>Director</td>
<td>Manager</td>
<td>Manager</td>
</tr>
<tr>
<td>02 8266 8350</td>
<td>03 8603 6394</td>
<td>03 8603 1562</td>
<td>03 8603 0736</td>
</tr>
<tr>
<td><a href="mailto:regina.fikkers@pwc.com">regina.fikkers@pwc.com</a></td>
<td><a href="mailto:julian.a.griffiths@pwc.com">julian.a.griffiths@pwc.com</a></td>
<td><a href="mailto:rachel.how@pwc.com">rachel.how@pwc.com</a></td>
<td><a href="mailto:matt.stott@pwc.com">matt.stott@pwc.com</a></td>
</tr>
</tbody>
</table>