THE BOTTOM LINE

Issue 16

HLB MANN JUDD
ADVISORY AND ACCOUNTING

Welcome to the latest edition of our financial reporting publication that aims to keep you in the loop with all the latest accounting and financial reporting developments, and the potential impact they may have on your business.

This reporting season is set against a backdrop of uncertainty, meaning it won't be 'business as usual' for many entities. ASIC highlights the changing and uncertain economic and market conditions as a key consideration for 30 June 2023 as this may impact several financial statement areas. We also highlight new accounting standards to consider and remind listed entities to ensure they meet their lodgement deadlines as the ASX will be strictly enforcing these. Charities need to be mindful of the new related party disclosures that are required in 30 June 2023 special purpose financial reports.

IN THIS ISSUE

Uncertainty a key consideration this reporting season

While the areas that the Australian Securities and Investments Commission (ASIC) will focus on for 30 June 2023 are consistent in many respects with those announced in June and December last year, economic and market conditions are not so similar meaning there may be much for management and directors to think about as they navigate a reporting season set against a backdrop of uncertainty.

Inflation, rising interest rates, labour shortages, changing customer preferences and behaviours, supply chain disruptions, the climate emergency and the changes this necessitates looming on the horizon. This is the landscape businesses find themselves traversing at the moment. It is, therefore, no surprise that ASIC has put an emphasis on the current uncertainty and changing market conditions in its latest focus areas.

Uncertainties and shifting market conditions affect all entities in some way, shape or form. For many entities, both listed and unlisted, these will impact several areas in their financial reports, including those highlighted by ASIC as areas of focus (see next page). Directors and management should consider how changing circumstances, uncertainties and risks impact the entity, from its performance, to the values of its assets and liabilities, to its business strategies.

Uncertainties tend to widen the range of valid judgements that underly asset values and other accounting estimates. Directors and management should ensure that these judgements are adequately considered and documented, especially where these will be subject to auditor (and possibly regulator) scrutiny. Uncertainties, key assumptions, and sensitivity analyses (where relevant), as well as how these have changed from the last reporting period, must be appropriately disclosed in the financial statements.

Examples of changing circumstances, uncertainties and risks to be considered when preparing 30 June 2023 financial reports
Availability of skilled staff and expertise
Rising interest rates and the impact on future cash flows and discount rates
Increases in energy and oil prices
Legislative and regulatory changes
Changing customer preferences
Evolving COVID-19 conditions
Inflation which could impact income and costs differently
Ukraine/Russia conflict
Technological changes and innovation
Discontinuation of financial and other support
Climate change, climate-related events and transitioning to net zero

'Usual' focus areas for 30 June 2023

The areas ASIC has highlighted for this reporting season that are unchanged from those announced last year in June and December are the following:

- Asset values
- Adequacy of provisions
- Solvency and going concern assessments
- Post-balance date events
- Disclosures, both in the financial report and the Operating and Financial Review (OFR)

ASIC reminds listed entities of the importance of the OFR as a complement to the financial report, encouraging directors to use this space to communicate what significant events and conditions impacted the business during the year, and why the numbers are what they are. ASIC also urges directors to be better at disclosing the business risks that could most impede the entity from reaching its financial objectives and business strategies.

To this end, it should be noted that in ASIC's latest surveillance program for 30 June 2022, more than a third of ASIC's queries to directors related to the OFR, specifically inadequate disclosure of material business risks. To avoid any 'please explain' letters from ASIC on this front, directors of listed entities should ensure greater attention is given to this part of the OFR. Risks to consider include cyber security and climate as these are risks likely to impact many entities.

For guidance on preparing an effective OFR, directors can refer to RG 247 *Effective disclosure in an operating and financial review*.

Impairment of assets should continue to be high on the list of priorities for directors. Goodwill and other indefinite-lived intangible assets are required to be tested annually for impairment, however impairment tests for other non-financial assets (such as intangible assets with finite useful lives and property) are only necessitated by impairment indicators. As economic conditions deteriorate, the likelihood of events or circumstances that trigger the need for a detailed impairment assessment increase.

Directors should not assume that the assumptions applied in prior period impairment evaluations remain appropriate now. ASIC continues to find that key assumptions underlying impairment calculations are not reasonable and supportable. To ensure a smooth audit process, make sure the assumptions and inputs are documented and can be substantiated.

It is also important to note ASIC's view that a company's market capitalisation cannot be used as a proxy for its fair value when it comes to impairment testing. Where a detailed impairment assessment is required, the higher of value in use and fair value less costs of disposal must be determined applying the requirements of AASB 136 Impairment of Assets.

New insurance standard

In terms of new accounting standards, ASIC will be paying attention to the application and related disclosures by entities impacted by AASB 17 *Insurance Contracts*. This new standard applies for the first time to annual reporting periods beginning on or after 1 January 2023. It is ASIC's expectation that insurers with June year ends quantify and disclose the impact of the new standard in their 30 June 2023 full year reports.

Insurers with half-years ending 30 June 2023 will need to apply the recognition and measurement requirements of the new standard and disclose the changes in accounting policies on adoption of that standard.

"Directors should ensure that investors are properly informed on the impact of changing and uncertain economic and market conditions, 'net zero' targets and other developments on financial position and future performance. Impacts on asset values and provisions should be assessed, and uncertainties, key assumptions, business strategies and risks disclosed."

ASIC Commissioner, Danielle Press

Improving transparency in special purpose financial reports of charities

Charities preparing special purpose financial statements (SPFS) under the requirements of the Australian Charities and Not-for-Profits Commission (ACNC) need to be mindful of the new related party disclosures required in their 30 June 2023 financial reports.

A charity that is not a reporting entity (as defined in *Statement of Accounting Concepts 1: Definition of a Reporting Entity*) may still prepare SPFS. This is because the reforms that ended SPFS as an option for a number of for-profit private sector entities with effect from 1 July 2021 did not apply to not-for-profit entities.

While the recognition and measurement requirements of Australian Accounting Standards are generally applied in SPFS, entities have some discretion as to what they disclose, being required only to comply with the disclosure requirements of the 'mandatory standards', namely:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1048 *Interpretation of Standards*
- AASB 1054 *Australian Additional Disclosures*

The result of this is that the disclosure around related parties and associated transactions has historically been light or missing altogether.

It is commonplace for charities to work with people and organisations with whom they are familiar or have a common interest. However, these interactions may create conflicts of interest, whether actual or perceived, and may allow related parties to receive personal benefits from charity operations. Such transactions must therefore be managed properly. This includes being transparent about the nature and extent of related party transactions by disclosing them appropriately in financial reports.

In response to certain recommendations that stemmed from the ACNC Legislative Review undertaken a few years ago, the disclosure requirements relating to related party transactions (including Key Management Personnel (KMP) remuneration) have been enhanced for charities preparing SPFS.

KMP remuneration

KMP in a charity context are those senior decision makers within the organisation, excluding team leaders and operational managers. Judgement may be required to identify who the KMP are, but common examples include board members and trustees (as the Responsible People), and senior staff such as the CEO, CFO and COO.

KMP can either be employed directly by a charity or they can be provided to a charity via a separate management entity such as an accounting firm.

For reporting periods **ended 30 June 2022 and later**, large charities that prepare SPFS must disclose KMP remuneration, either in total or on a disaggregated basis. A large charity is one with annual revenue exceeding $3 million.

Where a large charity only has one remunerated KMP at any given time during the reporting period, the charity is exempt from making the new disclosures.

Amounts paid for KMP services provided by a separate management entity (as explained above) must be disclosed separately in the financial statements.

While large charities making these KMP remuneration disclosures for the first time in their SPFS for 30 June 2022 did not have to provide comparative information, they will be required to do so in their 30 June 2023 special purpose financial reports.

Related party transactions

For financial years ending **on or after 30 June 2023**, charities preparing SPFS to meet their ACNC reporting obligations will need to disclose related party transactions.

AASB 124 *Related Party Disclosures* has been added as a 'mandatory standard' for disclosure purposes in special purpose reporting, meaning there are now six 'mandatory' standards.

Charities that prepare SPFS have the choice to apply either:

- The six 'mandatory' standards (as listed above, plus AASB 124); or
- The equivalent disclosures for the six mandatory standards contained in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

The definition of a related party depends on charity size.

For medium and large charities preparing SPFS, the definition in AASB 124 is used when identifying related parties and disclosing associated transactions.

For small charities (i.e. annual revenue is less than $500,000), a related party is defined as "*a person or organisation that is connected to the charity and has significant influence over the charity.*"

This includes:

- Responsible Persons and their close family members
- Senior management and their close family members
- Other people or organisations that can influence the charity's decision-making.

Small charities are not required to prepare financial reports. If they choose to do so for whatever reason, they are not required to make the new related party disclosures discussed in this article. Small charities are, however, required to disclose reportable related party transactions in their Annual Information Statements for 2023 and later.

The ACNC Commissioner has relieved charities from the requirement to provide comparative information in the first year that the related party disclosures are made, whether applying AASB 124 or AASB 1060. Consequently, for 30 June 2023, comparative information for related party transactions is not required in SPFS. This concession will not be available for 30 June 2024 (i.e. the second year the disclosures are made) so charities are encouraged to ensure the appropriate systems and procedures are implemented now to ensure the relevant information is readily accessible going forward.

30 JUNE REPORTING SEASON

This reporting season, like so many in recent years, will not be 'business as usual'. Finance teams, management and directors should ensure they dedicate sufficient resources, time and effort to the year end and audit processes.

New standards and interpretations

New and amending accounting standards to take note of for 30 June 2023 full years and half-years are listed in the table below. Commentary on specific pronouncements follows thereafter.

Standard / Interpretation	Effective date
Full years ended 30 June 2023	
AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*	1 January 2022
AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*	1 July 2022
Half years ended 30 June 2023	
AASB 17 *Insurance Contracts*	1 January 2023
AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 January 2023
AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

AASB 2020-3: Minor changes to AASB 116 and AASB 137

For entities with 30 June 2023 year ends, AASB 2020-3 makes minor amendments to a number of standards, the most noteworthy changes being the following:

- AASB 116 *Property, Plant and Equipment*: The amendments to AASB 116 prohibit a company from deducting the sales proceeds of items produced while preparing an item of property, plant and equipment for its intended use from the cost of that property, plant and equipment. Instead, entities must recognise such sales proceeds, as well as the associated production costs, in profit or loss. The changes will mainly affect extractive and petrochemical industries.
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*: The amendments to AASB 137 clarify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs to fulfil a contract include both incremental costs (for example, direct labour and materials) and an appropriate allocation of other direct costs (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

AASB 2022-3: Guidance on non-refundable upfront fees for NFP entities

This amending standard adds example 7A to the illustrative examples that accompany AASB 15 *Revenue from Contracts with Customers*.

Example 7A illustrates how AASB 15 should be applied to transactions where a NFP entity charges upfront fees to customers or members as part of the goods or services offered.

The guidance explains that where the goods or services to which the upfront fee relates are in the scope of AASB 15, the recognition of the upfront fee as revenue depends on whether the payment of the fee relates to a transfer of distinct goods or services to the customer that meets the definition of a performance obligation. In many cases, even though a non-refundable upfront fee relates to an activity that an entity is required to undertake to fulfil the contract, that activity may be an administrative task that does not necessarily result in the transfer of a promised good or service to the customer.

AASB 2021-2: Improving accounting policy disclosures

This narrow scope amendment to AASB 101 *Presentation of Financial Statements* requires entities to disclose 'material' accounting policy information rather than 'significant' accounting policies.

'Significant' is not defined in authoritative accounting literature. Consequently, divergent views as to what constitutes a significant accounting policy has led to ineffective accounting policy disclosures in practice. The result has been lengthy financial reports that contain excessive and irrelevant information, information that is not sufficiently entity-specific, or too much information that obscures important information.

'Material' is a financial reporting concept that both preparers and users are familiar with. It therefore makes sense that the concept of materiality be applied when deciding which accounting policies to include in the financial report.

> Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The revised standard explains that accounting policy information that relates to immaterial transactions, other events or conditions need not be disclosed on the basis that it is immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. For example, standardised information or information that only replicates or summarises the requirements of accounting standards are less useful to financial statement users.

Guidance has been added to AASB 101 to explain that accounting information is likely to be material if it relates to material transactions, other events or conditions, **and** the accounting policy:

- Has changed during the period (e.g., adopting a new accounting standard during the period)
- Is one of a choice of options allowed under accounting standards (e.g., measuring property, plant and equipment at cost or fair value)
- Has been developed applying the hierarchy in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of specific accounting requirements that apply in the circumstances (e.g., accounting for crypto holdings)
- Requires the use of significant judgements or assumptions in its application (e.g., application of the revenue standard), or
- Pertains to complex accounting and users would otherwise not understand the transaction (e.g., accounting for convertible notes).

If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

The amendments to AASB 101 do not affect the disclosures required to be made under other standards. For example, an entity may conclude that it has no material accounting policy information to disclose regarding investment property, however, if material, the entity must still disclose the information required by AASB 140 *Investment Property*.

To support the amendments, AASB Practice Statement 2 *Making Materiality Judgements* has been revised to demonstrate how an entity could decide whether information about an accounting policy is material to its financial statements. Guidance and examples have been added to this Practice Statement to assist entities in apply its 'four-step materiality process' to accounting policy disclosures.

AASB 2021-5: Deferred tax assets and liabilities arising from a single transaction

The amendments change AASB 112 *Income Taxes* by clarifying the accounting for deferred tax on transactions that give rise to equal taxable and deductible temporary differences at the time of the transaction.

This would arise in transactions that involve the recognition of an asset and a liability with a single tax treatment related to both. Examples of such transactions are leases, decommissioning, restoration and similar obligations.

In specific instances, entities are not required to recognise deferred tax when they recognise assets or liabilities for the first time (referred to as the 'initial recognition exemption'). The amendments introduced by AASB 2021-5 essentially limit the application of this initial recognition exemption as it can no longer be applied to transactions that give rise, on initial recognition, to both an asset and a liability with equal taxable and deductible temporary differences.

For a more in-depth analysis of the changes (prior to being issued), refer to our article that appeared in a previous edition of The Bottom Line in which the focus was on leases.

ASIC focus areas

Uncertainty is a key theme this reporting season thanks to geopolitical issues, rising interest rates and inflation, interruptions to supply chains and evolving COVID-19 conditions. Management and directors need to consider how these events and conditions affect their financial statements particularly with respect to areas such as:

- Impairment of assets such as goodwill, intangible assets, property and inventory
- Trade receivables and expected credit losses
- Going concern assessments
- Debt covenants and debt classification
- Lease modifications versus reassessments
- Onerous contracts
- Recognition of deferred tax assets
- Subsequent events and whether these are adjusting or non-adjusting events
- Significant judgements and estimates
- Disclosures

ASIC highlighted changing and uncertain economic and market conditions as one of the key considerations for preparers, directors and auditors in its focus areas for 30 June 2023. Refer to our earlier article for further information on the financial reporting areas requiring extra attention this reporting season.

Lodgement deadlines for listed entities

Listed entities must ensure they meet their lodgement deadlines imposed by the ASX to avoid their securities getting suspended from trading.

With effect from 31 January 2023, the ASX is strictly applying the lodgement deadlines applicable to periodic reports. Consequently, any periodic reports with a due date on or after 31 January 2023 must be lodged before the market announcements office closes on the business day when the report is due, otherwise the entity's securities will be suspended from trading on the next trading day.

The same applies if the report is lodged after the closure of the market announcements office on the day the report is due but before the market announcement office opens the next day. In this case, the entity's securities will be reinstated to quotation on the next trading day after the suspension is imposed. In other words, the entity's securities will be suspended for at least one day.

As a reminder, if a Listing Rule requires something to be done by a day that is not a business day, it must then be done by the preceding business day.

Normal business hours for the ASX market announcements office are 8:30am to 7:30pm (8:30pm during daylight saving) Sydney time, Monday to Friday, on ASX trading days.

Large 'grandfathered' proprietary companies

Large proprietary companies that used to be 'grandfathered' are reminded of their obligation to lodge their general purpose financial statements for 30 June 2023 with ASIC by 31 October 2023.

This is because the lodgement exemption that previously applied to these companies that met certain requirements was removed with effect from 10 August 2022. As a result, financial statements for these companies for years ending on or after 10 August 2022 must be lodged with ASIC within four months of year end.

CONTACT

For further information or assistance, please contact:

Adelaide

Corey McGowan
T: +61 (0)8 8133 5000
E: cmcgowan@hlbsa.com.au

Auckland

Jason Edwards
T: +61 (0)9 303 2243
E: jason@hlb.co.nz

Brisbane

Adrian Narayanan
T: +61 (0)7 3001 8800
E: anarayanan@hlbqld.com.au

Fiji

William Crosbie
T: +679 670 2430
E: william.crosbie@hlbnadi.com.fj

Melbourne

Michael Gummery
T: +61 (0)3 9606 3888
E: mgummery@hlbvic.com.au

Perth

Marcus Ohm
T: +61 (0)8 9267 3225
E: mohm@hlbwa.com.au

Sydney

Mark Muller
T: +61 (0)2 9020 4000
E: mmuller@hlbnsw.com.au

Wollongong

Ben Fock
T: +61 (0)2 4254 6500
E: bfock@hlbw.com.au

REPRESENTATIVE FIRMS

Hobart / Lorkin Delpero Harris

Lino Delpero
T: +61 (0)3 6224 4844
E: ldelpero@ldh.com.au

Lismore / Thomas Noble and Russell

Richard Watkinson
T: +61 (0)7 5593 1601
E: richard.watkinson@tnr.com.au

Newcastle / Cutcher & Neale

Mark O'Connor
T: +61 (0)2 4928 8500
E: mark.oconnor@cutcher.com.au

WINNER
2022
CLIENT
CHOICE
AWARDS

HLB MANN JUDD
ADVISORY AND ACCOUNTING

HLB.COM.AU

TOGETHER WE MAKE IT HAPPEN