



Finalisation of changes for 30 June 2010 Financial Reporting

As reported in our Special June edition of *Financial INSIGHT* a number of changes to the *Corporations Act 2001* and the differential reporting framework in Australia will affect financial reporting requirements for 30 June 2010 year ends. At the time of that edition, some finalisation of the requirements was outstanding. This edition of *Financial INSIGHT* provides an update on these and summarises the main changes to be considered when preparing 30 June 2010 financial reports.

Revised Differential Reporting Framework

Update

On 2 July 2010, the AASB issued AASB 1053 *Application of Tiers of Australian Accounting Standards* (AASB 1053) and AASB 2010-2 *Amendment to Australian Accounting Standards arising from Reduced Disclosure Requirements* (AASB 2010-2). The issuance of these standards finalised Stage 1 of the project to revise the differential reporting framework in Australia. AASB 1053 applies to annual reporting periods beginning on or after 1 July 2013, but allows for early adoption of the framework for years ending on or after 30 June 2010.

Under the revised framework, most entities who are not disclosing entities who prepare general purpose financial statements (GPFS), will be able to prepare GPFS with reduced disclosures, also known as "Tier 2 reporting requirements". The disclosures required for such GPFS are prescribed by AASB 2010-2 which amends relevant Australian Accounting Standards to exclude certain disclosures for Tier 2 GPFSs. Ultimately, the AASB will issue compiled accounting standards which will show those disclosures not required for Tier 2 companies as shaded.

Which entities can prepare reduced disclosure GPFSs?

The reduced disclosure regime is applicable to Tier 2 entities in the revised differential reporting framework. Under AASB 1053, the following types of entities are eligible to prepare reduced disclosure GPFSs:

- for-profit private sector entities that do not have public accountability
- not-for-profit private sector entities; and
- public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

'Public accountability' is defined in AASB 1053 as *"accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs."*

A for-profit private sector entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks".

Appendix B to AASB 1053 also notes that the following for-profit entities are deemed to have public accountability:

(a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;

(b) co-operatives that issue debentures;

(c) registered managed investment schemes;

(d) superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. II.E.1 *Regulation of Small APRA Funds*, December 2000; and

(e) authorised deposit-taking institutions.

Alternatively, Tier 2 entities are able to elect to apply Tier 1 (Full IFRS) reporting requirements. It should be noted that the reduced disclosure requirements are the minimum that these entities are able to disclose.

To assist in the application of the new reduced disclosure requirements, RSM Bird Cameron has produced a Reduced Disclosure Checklist which you can obtain from your local contact.

Corporate Law Reform

Update

As reported in our Special June edition of *Financial INSIGHT*, the *Corporations Amendment (Corporate Reporting Reform) Bill 2010* passed through Parliament on 24 June 2010 and the accompanying Regulations were approved on 29 June 2010.

The bill received Royal Assent on 28 June 2010, meaning that changes to the legislation are now in force and, as discussed previously most apply for years ended 30 June 2010.

Parent entity financial statements

In respect of consolidated financial statements, parent entity numbers do not have to be disclosed for financial years ended 30 June 2010, except for required note disclosure outlined below. Some points to note regarding the final Regulations are:

- the initial draft Regulations proposed that half year financial statements should contain note disclosure of parent entity numbers. This has been omitted from the final Regulations, such that parent entity numbers are only required to be disclosed by note in full year consolidated financial statements.

- the following disclosures are required in the notes to the financial statements of a consolidated entity:
 - current assets of the parent entity;
 - total assets of the parent entity;
 - current liabilities of the parent entity;
 - total liabilities of the parent entity;
 - shareholders' equity in the parent entity separately showing issued capital and each reserve;
 - profit or loss of the parent entity;
 - total comprehensive income of the parent company;
 - details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries;
 - details of any contingent liabilities of the parent entity;
 - details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment;
 - comparative information for the previous period for each of the above disclosures

The disclosures are required to be calculated in accordance with accounting standards in force in the financial year to which the disclosure relates.

- The legislation has been drafted such that it would technically be a breach of the law to continue to disclose parent entity numbers in the financial statements for years ended 30 June 2010. As this is not the intention, ASIC are expected to release a Class Order providing relief for companies who wish to continue to disclose both parent and consolidated entity numbers for 30 June 2010.

Companies Limited By Guarantee - distribution of annual reports

In the past, all companies had two options as the 'default' method for distributing annual reports - either in hard or electronic form or on the website. Generally all companies were required to either send all members a financial report or ask members to elect whether they wanted to receive a financial report or not. If members elected not to receive a financial report it would have to be available on the website and they would have to notify members each year when this was available.

The new law makes distribution for companies limited by guarantee much easier. Basically they are no longer required to ask members to elect whether they want to receive a financial report. It is up to the members to make such an election. Whilst it is not a legal requirement to notify members of this change, it may be considered good practice to do so. As a result there is no requirement to have the report available on a website either (ie for those who do not elect to receive it in hard or electronic copy). However, there is nothing to preclude the company placing the report on their website if they wish to.

Dividends

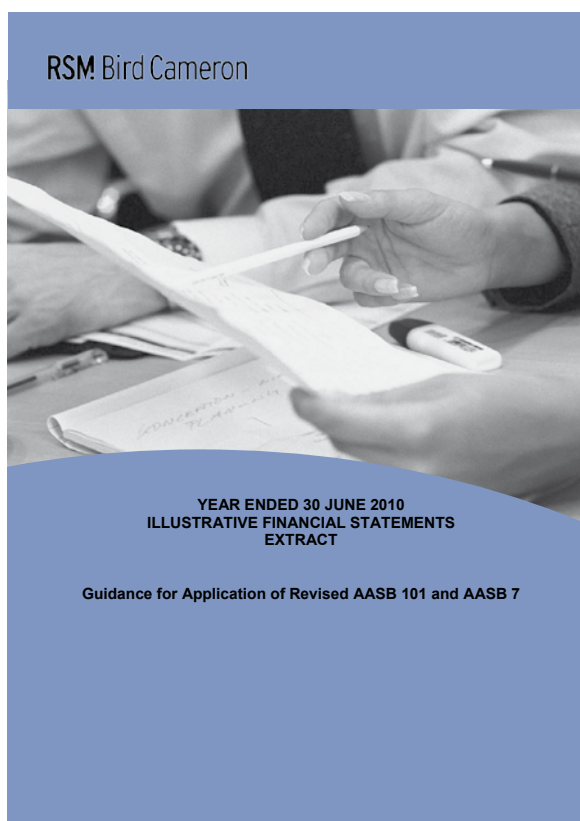
As a result of Royal Assent being received, any dividends declared on or after 28 June 2010 need to satisfy the new solvency test in s254T of the *Corporations Act 2001*, rather than the old "out of profit" test which was previously required by s254T. The revised s254T reads as follows:

254T Circumstances in which a dividend may be paid

1. A company must not pay a dividend unless:

- (a) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend; and*
- (b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and*
- (c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.*

2. Assets and liabilities are to be calculated for the purposes of this section in accordance with accounting standards in force at the relevant time (even if the standard does not otherwise apply to the financial year of some or all of the companies concerned).



Need help with new AASB 101 and AASB 7 disclosures for 30 June 2010?

Ask your RSM contact for a copy of our extract model financials.

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