Corporate Reporting

Lecture 3

Company Reports and Disclosures II –
Other Disclosure Requirements

1

Introduction

- AASB 101 requires a company preparing a set of financial statements:
  - A statement of financial position
  - A statement of comprehensive income
  - A statement of changes in equity
  - A statement of cash flows
- Additional information needs to be provided in notes;
- Almost every accounting standard prescribes some additional information should be disclosed in either on the faces of FS or in the notes.

2

Main Accounting Standards

- AASB 101: Presentation of Financial Statements
- AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 110: Events after the Balance Sheet Date
- AASB 1031: Materiality

3

Accounting Policies

4

How to choose accounting policies

- According to relevant accounting standards (AASB 108, para. 10);
- If no accounting standard, management must determine an accounting policy that
  - **(a) relevant to the economic decision-making needs of users; and**
  - **(b) reliable, in that the financial report:**
  - **(i) represents faithfully the financial position, financial performance and cash flows of the entity;**
  - **(ii) reflects the economic substance of transactions, other events and conditions, and not merely the legal form;**
  - **(iii) is neutral, that is, free from bias;**
  - **(iv) is prudent; and**
  - **(v) is complete in all material aspects.**

5

How to disclose accounting policies

- Always in Note 1
- To disclose
  - Whether the financial report has been prepared in accordance with Australian Accounting Standards and Interpretations
  - Whether the financial report is a general purpose financial report or a special purpose report;
  - The measurement bases used
  - Specific accounting standards used
  - Changes in accounting policies and estimates
- Do not need to mention the accrual accounting and the going concern bases unless otherwise.

6

Changes in accounting policies

- Changes in accounting policies
  - Required by an accounting standard
  - Provide more relevant and reliable information
- Disclose whether a change is voluntary (AASB 108 para. 29 for details) or is made on the adoption of a standard (AASB 108 para.30 for details)

7

Prior period errors

- Prior period errors
  - To be adjusted against opening retained earnings, restating comparative information (AASB 108)
  - Therefore these errors will not appear in the statement of comprehensive income other than as adjustments to comparatives
  - This represents a departure from the 'old' AASB 1018, which required errors to be corrected in the period in which they were detected

8

Prior Period Errors

	Opening Retained Earnings (2009)	120
+	Current Year earnings	100
=	Closing Retained Earnings (2009)	220

- Found a mistake in 2008, the correct earning for 2008 was 100 (not 120)

<u>What are remedies?</u>

3 possible approaches

9

Prior Period Errors

1. Reissue the financial statements for 2008
   Cost too much!
2. adjust against opening retained earnings, restating comparative information (AASB 108). The discrepancy between the closing retained earnings in 2008 F/S and opening retained earnings in 2009 F/S is explained in the notes of 2009 F/S

	Opening Retained Earnings (2009)	100
+	Current Year earnings	100
=	Closing Retained Earnings (2009)	200

10

Prior Period Errors

3. Correct it current (2009) year. (used in the old AASB 1018)

	Opening Retained Earnings (2009)	120
+	Current Year earnings	100
-	Correct previous year error	20
=	Closing Retained Earnings (2009)	200

11

Changes in accounting estimates

- Changes in accounting estimates (AASB 108)
  - Estimates made of bad debts, inventory obsolescence, depreciation rates, etc.
  - Estimates need revision if circumstances change or new information or more experience is obtained
  - If the change in estimate affects current period only:
    - Recognise in period of change
  - If change affects current and future periods:
    - Recognise in period of change and future periods

12

Materiality (AASB 1031)

Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively to:

(a) influence the economic decisions of users taken on the basis of the financial report; or

(b) affect the discharge of accountability by the management or governing body of the entity. (AASB 1031.9)

13

- If an item or an aggregate of items is material, it is required to be recognised, measured or disclosed in accordance with the requirements of an Accounting Standard.
- In deciding whether an item or an aggregate of items is material, the **nature** and **amount** of the items usually need to be evaluated together.

14

Rules for Determining the Material Amount

- An amount which is equal to or greater than 10 percent of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary.
- An amount which is equal or less than 5 percent of the appropriate base amount may be presumed not to be material unless there is evidence,or convincing argument to the contrary.
- Between five and ten percent represents a “grey area’ where further professional judgement is required.

15

Base Amount

- For items in Balance Sheet
  - Equity
  - Total assets
  - Total liabilities
- For items in income statement
  - Operating profit or Loss
  - Revenue
  - Expenses
- For items in Cash Flow Statement
  - cash provided by operating ,investing and financing activities

AASB 110 Events After the Balance Date

What is an After-balance-sheet-date Event?

- **Reporting date**
  - Often referred to as 'balance date'
  - End of the financial period (typically 12 months)
  - For most Australian companies this is 30 June
- **Date financial report is authorised for issue**
  - <u>For companies</u>: date the Directors' Declaration is signed
  - <u>For other entities:</u> date of final approval of the report by the entity's management or governing body

What is an After-balance-sheet-date Event? (cont.)

- Time lag of many weeks or months between:
  - end of financial year; and
  - date that shareholders and other interested parties receive the financial reports
- Many material events can occur after reporting date
- Failure to disclose such events can render accounts misleading

19

Summary guidance in relation to the disclosure of after-reporting date events

period of time in which an item or event is considered an 'event occurring after reporting date'

Reporting date
30 June for most companies in Australia

Date the financial report is authorised for issue

- *For companies:* date of Directors' Declaration-could be many weeks after reporting date.
- *For other entities*: date of final approval of financial report by management or governing body of entity.

20

Subsequent Events

There are two basic types of subsequent events (after-reporting-date events) requiring consideration (AASB 110):

1. Adjusting events after reporting date
2. Non-adjusting events after reporting date

21

Adjusting Events (Type 1)

22

Non-adjusting Events (Type II)

23

Disclosure Requirements for Non-adjusting events

- The nature of the event, and
- An estimate of its financial effect,
- Or a statement that such an estimate cannot be made.

24

Example: Events occurring after reporting date

The reporting date of Big Ltd is 30 June 2003. The Following events have been taken place since reporting date and all events are deemed to be material:

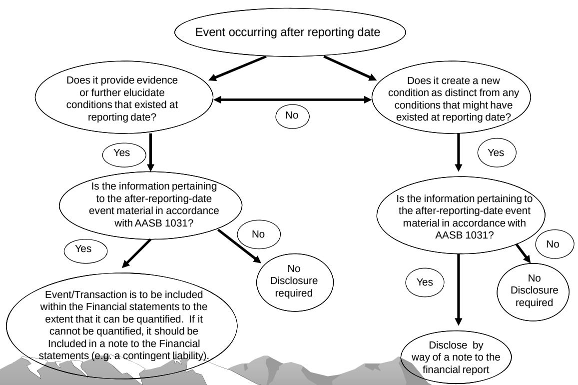
- (a) On 17 July 2003, the company settled and paid a personal injury claim from a former employee arising out of an accident that occurred in September 2002. Damage amounted to $65,000.

25

- (b) On 31 August 2003, a building owned by the company was severely damaged by a storm resulting in uninsured damage of 150,000.
- (c) On 17 September 2003, the company issued 200,000 fully paid shares to acquire the net assets of JMC Pty Ltd.

26

Determining the treatment of an event occurring after reporting date



27

Other disclosure requirements in AASB 101

- Capital and other expenditure commitments
- Contingent liabilities
- Auditor's remuneration
- Executives' remuneration
- Economic dependency

28

Company Reports and Disclosures

Prepare a statement of comprehensive income, a statement of financial position and a statement of changes in equity according to applicable accounting standards

29

TASKS

- using the information in an **unadjusted** trial balance
- to prepare a statement of comprehensive income, a statement of financial position and a statement of changes in equity
- with relevant notes
- in accordance with the applicable accounting standards

30

PROCEDURE

- **Step 1**:Prepare the adjusting journal entries;
- **Step 2**:Post adjusting journal entries in a trial balance worksheet;
- **Step 3**:Calculate the adjusted trial balances;
- **Step 4**:Prepare an internal P/L statement, statement of retained profits and a balance sheet;
- **Step 5**:Prepare a **FORMAL** statement of comprehensive income, a statement of financial position and and a statement of changes in equity; with relevant notes according to the requirements of accounting standards.
- Remember Petunia example in Lecture 2 ???

31

- Step 2-4 can be shortcut by directly calculating the adjusted figures for revenues, expenses, assets, liabilities and equity.
- Short-cut approach
  – Question 2

32