Notes to the financial statements

Australian Stock Exchange Limited and controlled entities

1 Statement of significant accounting policies (continued)

(e) Taxation

The consolidated entity adopts the income statement liability method of tax-effect accounting.

Income tax expense for the year is calculated on the operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, are carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or in relation to tax losses, when realisation is virtually certain.

ASXL elected to form a tax consolidated group for income tax purposes with effect from 1 July 2002. ASXL, the head entity, therefore recognises all of the deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions). Refer to note 5 for further details.

(f) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the company.

Diluted EPS is calculated by dividing net profit attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(g) Cash and cash equivalents

Cash assets are stated at market value.

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within one working day, with a term to maturity of less than three months.

(h) Receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Trade debtors to be settled within 30 days are carried at amounts due.

(i) Investments

Controlled entities

Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount.

Associates

In the company's financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

Other companies

Other investments are carried at the lower of cost or recoverable amount.

(j) Property, plant and equipment

Cost and valuation

All classes of property, plant and equipment are measured at cost.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Depreciation and amortisation

Depreciation is provided on a straight-line basis on all plant and equipment, over their estimated useful lives. The depreciation periods used for each class of asset, for the current and previous years, are as follows:

	Years
– Plant and equipment	3-7
– Computer equipment and software development	3-7
– Motor vehicles	4-6
– Leased motor vehicles capitalised	3-4
– Leasehold improvements	The lease term

Leased plant and equipment

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the elapsed items, are recognised as an expense on a straight-line basis.

Leased premises

Lease incentives are included in several of the operating leases negotiated by the consolidated entity, and include rent-free periods and free fit-out of leased areas. The estimated value of the lease incentives has been apportioned over future accounting periods. The provision has been calculated on the basis of discounted net future cash flows. The net lease costs are charged against the results for those periods to permit a proper matching of expenditure and revenue. Refer note 1(s) for further details.

Capitalisation and amortisation of software expenditure

Expenditure for major upgrades or enhancements to existing major systems is capitalised and written off over seven years, or if minor enhancement to existing systems, the lesser of five years or the remaining useful life of the system being enhanced. Expenditure on new software projects less than $500,000 is expensed. Internal costs are also included in capitalised expenditure.

(k) Software development for third parties

Work in progress for the development of software for parties external to the company is carried at cost less progress billings, less any provision for foreseeable losses. Profit is not recognised until it is assessed by the company as being earned beyond any reasonable doubt.