

## Upcoming Key Changes for Financial Reporting

The government tabled in parliament the Corporations Amendment (Corporate Reporting Reform) Bill 2010 (the Bill) on the morning of 26 May 2010. The Bill is expected to be passed prior to the final winter sitting day of 24 June. If passed, the Bill will be effective immediately and would therefore have significant impacts on the financial reporting requirements of entities for June 2010 year ends. Likely changes include:

1. Removal of parent entity financial statements
2. Changes in requirements for paying dividends
3. Three tier reporting approach for companies limited by guarantee
4. Reduced restrictions on changing reporting periods
5. IFRS declarations

### 1 Removal of parent entity financial statements

For companies that present group financial statements, the Bill proposes the removal of parent entity financial statements and current parent disclosures. This would be replaced by supplementary disclosures in notes. The supplementary information on the parent entity required in the notes would be:

- ▶ Current and total assets
- ▶ Current and total liabilities
- ▶ Shareholder's equity
- ▶ Profit or loss
- ▶ Total comprehensive income
- ▶ Guarantees, contingent liabilities and capital commitments

### 2 Changes in requirements for paying dividends

The Bill proposes the removal of the 'profits test' – where dividends can only be paid out of profits. This test would be replaced by a system whereby a company may pay dividends if:

- ▶ Assets exceed liabilities and the excess is sufficient to pay a dividend
- ▶ It is fair and reasonable to shareholders
- ▶ It will not impact the company's ability to pay its creditors

### 3 Three tier reporting approach for companies limited by guarantee

Based on sample data provided by the Australian Securities and Investment Commission (ASIC) in November 2006, 47% of revenues generated by public companies limited by guarantee related to companies reporting less than \$250k revenue. The Bill proposes to provide reporting and audit relief to many companies limited by guarantee provided the constitution of the company does not require financial statement preparation and an audit (in these instances it may be advisable to pursue a change in the companies constitution). The Bill proposes to provide relief by instituting a three tier approach.

- ▶ Tier 1 - Less than \$250k revenue and not a deductible gift recipient (i.e. cannot receive tax deductible gifts)
  - exempt from preparing a financial report and appointing an auditor.
- ▶ Tier 2 - Less than \$250k revenue and deductible gift recipient; or Greater than \$250k and less than \$1m revenue
  - prepare a financial report, which they could elect to have reviewed rather than audited;
  - prepare a streamlined directors' report, rather than a full directors' report; and
  - be subject to a streamlined process for distributing the annual report to members.

- ▶ Tier 3 - Greater than \$1m revenue
  - continue to prepare an audited financial report;
  - prepare a streamlined directors' report, rather than a full directors' report; and
  - be subject to a streamlined process for distributing the annual report to members.

There will be safeguards put in place whereby ASIC or at least five per cent of members can require a company limited by guarantee to prepare a financial report or a directors' report.

The streamlined directors' report would include:

- ▶ the name of each person who has been a director of the company at any time during or since the end of the year and the period for which the person was a director;
- ▶ each director's qualifications, experience and special responsibilities;
- ▶ the number of meetings of the board of directors held during the year and each director's attendance at those meetings;
- ▶ for each class of membership in the company, the amount which a member of that class is liable to contribute if the company is wound up;
- ▶ the total amount that members of the company are liable to contribute if the company is wound up;
- ▶ a description of the short and long term objectives of the entity;
- ▶ the entity's strategy for achieving those objectives;
- ▶ the entity's principal activities during the year;
- ▶ how those activities assisted in achieving the entity's objectives; and
- ▶ how the entity measures its performance, including any key performance indicators used by the entity.

The Bill also proposes to simplify the distribution of annual reports to members of companies limited by guarantee. Currently these companies are permitted to distribute annual reports via their website, however not all companies limited by guarantee have or can afford a website. So the proposals would enable these companies to institute a system whereby members wishing to obtain a hard copy or an electronic copy of the company's latest annual report can elect to obtain this from the company free of charge. This election remains in force for each member until changed by that member.

## 4 Reduced restrictions on changing reporting periods

Under the current regime it is very difficult for entities to change reporting year ends subsequent to their first financial year, for any reason other than to synchronise year ends within a consolidated group. The proposal would enable an entity to change its year end if:

- ▶ the financial year in the period of change is not longer than 18 months;
- ▶ during the previous five financial years each financial year has been of 12 months duration; and
- ▶ the change to the subsequent financial year is made in good faith in the best interests of the entity.

## 5 IFRS declarations

Companies that prepare General Purpose Financial Reports are currently required to include in the notes to their financial statements an unreserved statement of compliance with IFRS. The auditing standards also require auditors to express an opinion in the audit report on whether or not the financial report complies with IFRS. The Bill proposes to extend these requirements to directors such that where the notes to the financial statements include an explicit and unreserved statement of compliance with IFRS, the directors' declaration included in the annual report must declare compliance with IFRS as made by the International Accounting Standards Board (IASB).

### Effective Date

It is anticipated at this stage, that the Bill will be effective for annual and half year reporting periods ending on or after 30 June 2010. PKF will issue an alert to advise of any change to this expectation.

This summary has been prepared by PKF Australia Limited. Should you require assistance or additional information, please contact your local PKF Engagement Partner:

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