

Accounting alert

Analysis of the latest accounting developments delivered to you via e-mail

Compliance with AASB 1 – SPFRs and small proprietary companies

AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards should' be applied when an entity prepares its first Australian equivalents to IFRS (A-IFRS) financial report. Many entities in Australia are not required to prepare a financial report (for example, small proprietary companies) and those that do prepare a financial report are often permitted to prepare a special purpose financial report (SPFR) on the basis that the entity is not a reporting entity. However, over time an entity's circumstances may change requiring the preparation and/or lodgement of a general purpose financial report (GPFR). For example, a 'non-reporting entity' may become a reporting entity. For these entities, the question arises as to when they should comply with the transitional provisions of AASB 1. This Accounting Alert addresses:

- preparation of a SPFR under the Corporations Act
- change in status from a small proprietary company to a large proprietary company.

Preparation of a SPFR under the Corporations Act

The following Standards must be complied with in the preparation of all financial reports under the Corporations Act, including SPFRs:

- AASB 101 'presentation of financial statements'
- AASB 107 'cash flow statements'
- AASB 108 'accounting policies, changes in accounting estimates and errors'
- AASB 1031 'materiality'
- AASB 1048 'interpretation and application of standards'

In addition, ASIC is of the view that compliance with the recognition and measurement requirements of all Standards is required in order for the financial report to present a true and fair value under the Corporations Act. This would include compliance with AASB 1.

Therefore, the requirements of AASB 1 must be applied in the preparation of an entity's first A-IFRS compliant financial report, which is the first annual financial report in which the entity adopts A-IFRS, by an explicit and unreserved statement in that financial report of compliance with A-IFRS. In this regard, a SPFR that complies with the recognition and measurement requirements of all A-IFRS will be regarded as an A-IFRS compliant financial report, even though the disclosure requirements of all A-IFRS may not have been complied with in the presentation of the SPFR.

Change in status from small to large proprietary company

If a company changes its status from a small proprietary company to a large proprietary company (as defined by the Corporations Act), the first financial report prepared after the change in status will need to comply with the requirements of AASB 1 only if that financial report is the company's first A-IFRS compliant financial report.

An entity's first A-IFRS financial report is the first annual financial report in which the entity adopts A-IFRS, by an explicit and unreserved statement in that financial report of compliance with A-IFRS. A financial report under A-IFRS is an entity's first A-IFRS financial report if, for example, the entity:

- presented its most recent previous financial statements:
 - in conformity with A-IFRS in all respects, except that the financial report did not contain an explicit and unreserved statement that they complied with A-IFRS; or
 - containing an explicit statement of compliance with some, but not all, A-IFRSs (note: a SPFR that complies with the recognition and measurement requirements of all A-IFRS will be regarded as an A-IFRS compliant financial report);

SPFRs required to comply with transitional provisions of AASB 1

Timing of application of AASB 1 depends on the nature of the previous financial report

- prepared financial statements under A-IFRS for internal use only, without making them available to the entity's owners or any other external users
- prepared a reporting package under A-IFRS for consolidation purposes without preparing a complete set of financial statements as defined in AASB 101; or
- did not present financial statements for previous periods.

Although small proprietary companies are generally exempt from the requirement to prepare an annual financial report under the Corporations Act, a company can voluntarily choose to prepare an annual financial report. Accordingly, a small proprietary company may prepare its first A-IFRS compliant financial report prior to becoming a large proprietary company. This may be done to 'manage' the date of transition to A-IFRS.

Feedback and assistance

We welcome your feedback on the matters covered in this Accounting Alert – please email your comments to **accounting_alerts@deloitte.com.au**

For assistance in applying the requirements outlined in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to **bruporter@deloitte.com.au**

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