



TECHNICAL UPDATE

NO MORE PARENT ENTITY FINANCIAL STATEMENTS BUT CAN YOU STILL PAY A DIVIDEND?

► **THE CORPORATIONS AMENDMENT (CORPORATE REPORTING REFORM) BILL 2010 WAS PASSED BY PARLIAMENT ON 24 JUNE 2010 AND RECEIVED ROYAL ASSENT ON 28 JUNE 2010. AMONGST THE CHANGES, PARENT ENTITY FINANCIAL STATEMENTS ARE NO LONGER REQUIRED FOR 30 JUNE YEAR ENDS.**

On 24 June 2010, the Government delivered on its promises to reform financial reporting and cut red tape. Some of the key changes included in the Bill include:

No more parent entity financial statements

Where consolidated financial statements are required by Accounting Standards, only financial statements of the **consolidated entity** will be required for years ending on or after 30 June 2010. Unfortunately, there is a requirement to present parent entity key financial information in the notes to the financial statements. Therefore attention is still required in respect of difficult measurement areas e.g. impairment of inter-company loans and investment in subsidiaries, and the fair value of inter-company loans at below market interest rates. So the time and cost savings from these changes may not be as great as what some would have hoped.

No more audits for small companies limited by guarantee

Small companies limited by guarantee no longer require an audit for years ending on or after 30 June 2010 and certain medium-sized ones have the choice of having an audit or a review of their financial statements.

Dividends subject to solvency test

The 'profit test' has been replaced by an 'assets must exceed liabilities test', **calculated in accordance with Accounting Standards**, for dividends declared on or after the date that the Bill receives Royal Assent. The following types of entities may be prejudiced by these changes: small proprietary companies that are not required to use Accounting Standards; large proprietary companies that prepare special purpose financial reports and do not apply all the measurement requirements of Accounting Standards; and entities with significant levels of debt, but which are not insolvent on a cash basis.

SECTOR

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Easier to change year ends

It will also be much easier for companies to change year ends if certain criteria are met. In the year of change, the financial year cannot be longer than twelve months. However, the earliest possible date that these new rules can be applied is for years beginning on or after 1 July 2010.

Action Points

- If permitted by your constitution, start deleting all parent entity disclosures for 30 June 2010
- Companies limited by guarantee - determine whether you require or want a review or an audit of your financial statements for 30 June 2010
- Determine whether you can still pay dividends.

Our [December 2009 Accounting News](#) includes a summary of the proposals in the original exposure draft and [June 2010 Accounting News](#) includes a summary of changes made to the Bill for the House of Representatives.

The July 2010 edition of Accounting News will include a detailed summary of the final amendments.

MORE INFORMATION

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