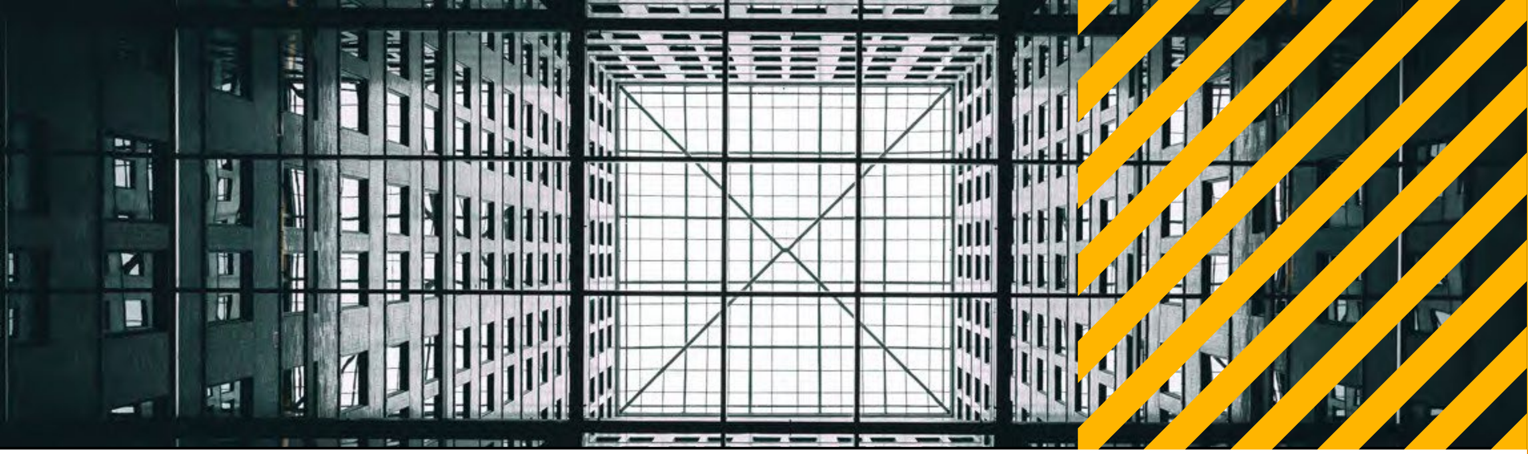
Financial Reporting Update 2024

Year-end Reminders for 31 December 2024



Here is a quick guide of things to think about for the 31 December 2024 reporting season

This document highlights the key areas that might impact companies for the 31 December 2024 reporting season, including areas of focus for ASIC, general hot topics in the market, accounting changes from standard setting, regulatory changes and sustainability matters impacting financial reporting. We recommend you scan through the list to identify what might be relevant and take a deeper dive through the linked guidance where needed.

Note: Some of the PwC content available via the links provided below will require a free registration to Viewpoint. Follow **this** link to register.

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<tr><td colspan="2">Focus Areas and Hot Topics</td></tr>
<tr><td>What are ASIC's areas of focus?</td><td>As of the date of publication, ASIC has not yet released its areas of focus for 31 December 2024. Please refer to their release for the June reporting season: ASIC announces 30 June 2024 focus areas and expanded program to support financial reporting and audit quality.

In addition to their areas of focus, ASIC has released its report on ASIC's Oversight of Financial Reporting and Audit 2023-24 which summarises the results of its surveillance activities. Key financial reporting areas of focus highlighted include:
• Failure to include material business risk disclosures in the operating and financial review - refer to ASIC's Regulatory Guide 247 Effective disclosure in an operating and financial review
• Inadequate impairment of assets and misclassification of assets as current or non-current
• Concerns with recognition of revenue and disclosure of accounting policies, including recognition of revenue as an agent versus principal
• Compliance with ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information with respect to the use of non-IFRS profit information
• The appropriateness of preparation of parent vs. consolidated accounts and inclusion of comparative information
• Focus on the quality of financial reporting of previously grandfathered companies

Key media releases published by ASIC during the surveillance period included:
• Improvements to risk disclosures, including sustainability-related risks
• Improved disclosure of unbilled disbursements and disbursements funding interest
• Adequacy of provisions for liabilities and asset valuation
• Change in accounting policy to recognise revenue from the sale of software products as an agent rather than a principal
• Grandfathered company failed to comply with reporting requirements
• Australian entity fails to consolidate a foreign subsidiary that it controls in accordance with AASB 10
• Reduced-content prospectus blocked by ASIC as a result of a failure to comply with AASB 136 Impairment of assets

Looking ahead ASIC will continue its focus on previously grandfathered companies and expand its focus on Registrable Superannuation Entities which are now required to lodge financial reports under Chapter 2M of the Corporations Act.</td></tr>
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What's the issue?	Points to consider and where to go for more help
Are you impacted by Pillar Two tax obligations?	In October 2021, over 135 jurisdictions agreed to update the international tax system to ensure that large multinational enterprises pay a minimum level of tax (15%) on the income arising in each of the jurisdictions where they operate - referred to as Pillar Two. The new tax is continuing to be enacted in various jurisdictions around the world with various effective dates. In March 2024, exposure draft legislation to implement a global and domestic minimum tax in Australia was released for consultation by Treasury. Refer to PwC's **Tax Alert** for additional information. It is expected that the legislation and supporting regulations (which include the detailed model rules) will be substantively enacted before the end of December 2024 with an effective date of 1 January 2024. If this is the case, entities in the scope of the legislation will need to calculate and recognise their Pillar Two tax expenses for the calendar year end 2024. This should continue to be monitored. Refer to p. 99 of **Value illustrative accounts 2024** which specifies the treatment depending on the timing of enactment and effective dates. While amendments have been made to AASB 112 *Income Taxes* to provide relief from accounting for deferred taxes arising from the OECD's Pillar Two international tax reforms, disclosures are required to enable users to understand actual and expected impacts. See guidance at **Global implementation of Pillar Two: Impact on deferred taxes and financial statement disclosures.** See also PwC's Pillar Two guidance and tracker as to the status of enactment in countries around the world for more information: **Pillar Two Country Tracker.**
Are you required to include segment disclosures in your financial statements in accordance with AASB 8, Operating Segments? If so, please refer to this IFRIC agenda decision which could impact your 31 December 2024 financial statements.	In July 2024, an IFRS Interpretations Committee's agenda decision was published which clarifies that an entity is required to disclose certain specified items of profit or loss (as outlined in AASB 8, par. 23) even if those items are not specifically reviewed by the chief operating decision maker (CODM). Some of the requirements from par. 23 are very straightforward. However, others, such as the requirement to disclose 'material items of income and expense disclosed in accordance with paragraph 97 of IAS 1' are much more judgemental. Many entities might need to increase the amount of information provided in their segment disclosures. Entities should immediately consider whether changes are needed to their segment disclosures. Committee agenda decisions do not have an effective date but, typically, entities are afforded enough time to implement them. Our **In Brief** discusses the agenda decision and provides preparers with examples on applying the agenda decision.

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Is your subsidiary's functional currency hyper-inflationary?	The IMF World Economic Outlook report released in October 2024 provides updated data in respect of current and projected levels of inflation. The most significant changes in respect of hyperinflationary economies from the updates provided in April 2024 relate to: • Lao P.D.R. and Malawi, which are expected to be hyperinflationary for 31 December 2024 period ends; • Nigeria and Egypt, which are not considered hyperinflationary for 31 December 2024 period ends, but should be very closely monitored. These territories are at risk of becoming hyperinflationary and should be closely monitored; • Zimbabwe which might no longer be considered to be a hyperinflationary economy from 31 December 2024; and • Yemen, which is no longer considered to be a hyperinflationary economy from 30 June 2024 Other hyperinflationary economies relate to the currencies of Argentina, Ethiopia, Ghana, Haiti, Iran, Lebanon, Sierra Leone, South Sudan, Sudan, Suriname, Turkey, and Venezuela. This **In brief** provides guidance on hyperinflationary economies, including a country tracker and a country watch list.
Have you stood back and performed a review of the annual report and financial statements as a whole?	Prior to approving the financial statements, entities should perform a critical review of the annual report and accounts. This will ensure that the whole report is clear, balanced and understandable. As part of the critical review, immaterial information should be identified and deleted. Entities should also consider if additional information, beyond the specific requirements of each AASB Accounting Standard, should be given to enable the reader to understand specific material transactions or events. Entities should ensure that accounting policies describe all significant events. Also, all significant judgements in applying the policies should be described and explained. In relation to uncertainties, key assumptions and sensitivities need to be provided. Disclosures around judgements and estimates should be reassessed to ensure they remain relevant and up to date. A roll forward of the prior year, especially in fast changing times, might be a good starting point, but should not automatically be assumed to still be relevant. Entities should also ensure that there is sufficient linkage and consistency between the narrative and the financial statements in the overall report. Any perceived inconsistencies might need to be explained and are typically subject to regulatory challenge. This would for example be particularly relevant for climate related impacts. See further discussion below at *What should an entity consider when reflecting climate matters in the financial statements?*
Have you considered our key reminders for impairment review of non-financial assets?	Impairment is an ongoing area of concern for many entities in the current economic environment. Regulators remain focused on this area and continue to push for increased transparency in disclosures. Entities with significant amounts of goodwill and intangible assets with infinite lives, or those that are affected to a greater extent by climate change, inflation or geopolitical risks should consider the common pitfalls observed in the impairment of non-financial assets. The following **In brief** provides a further discussion.
Where is it appropriate to offset (or net) items in the primary financial statements?	Offsetting (sometimes referred to as 'netting') is the net presentation of separate assets and liabilities or income and expenses in the financial statements. Similar considerations apply to the reporting of gross or net cash flows in the cash flow statement. Offsetting and netting are generally prohibited, except where expressly required or permitted by accounting standards. This is because it detracts from users' ability to both gain a full and proper understanding of the transactions, other events and conditions that have occurred and to assess an entity's future cash flows. Where offsetting is permitted, there are usually specific criteria that must be met in order to offset. Most cases where the criteria for offsetting are met, offsetting must be applied – it is not a choice. Relevant guidance to be considered includes: general offsetting, including the income statement within AASB 101 *Presentation of financial statements*, financial instrument offsetting in AASB 9 *Financial instruments*, offsetting of current and deferred tax amounts in AASB 112 *Income taxes* and offsetting in the statement of cash flows in AASB 107 *Statement of cash flows*.

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Other Regulatory Considerations	
Are you a listed or unlisted public company? If so, you should ensure that you are aware of the new Corporations Act requirements with respect to the new Consolidated Entity Disclosure Statement.	In March 2024, the Federal Government passed the Treasury Laws Amendment Bill 2023. The legislation amends the Corporations Act 2001 to require Australian public companies to disclose information (including place of incorporation and tax residency) about their subsidiaries in their annual financial reports by way of a 'Consolidated Entity Disclosure Statement'. The legislation will apply to public companies with a year end 31 December 2024. While this is an evolving area, refer to PwC's current guidance document, **Disclosure of tax residence of subsidiaries in the financial report** for a summary of the requirements. In July 2024, ASIC also shared an Information Sheet that provides guidance for preparers of financial reports to ensure that the Consolidated Entity Disclosure Statement complies with the requirements of the Corporations Act 2001. See the Information Sheet **here**.
Developments in Standard Setting	
What's new in standard- setting that is effective for 31 December 2024 year-ends?	See amendments worth noting for 31 December 2024 year-ends: • IFRS Interpretations Agenda December **Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)** - See further discussion above • AASB 101 *Presentation of financial statements* was amended to address the classification of liabilities as current or non-current where conditions must be met and related disclosures for liabilities subject to such conditions. The amendments also change how equity conversion features impact current/non-current presentation. See **Amendments to IAS 1: non-current liabilities with covenants for further details.** • AASB 16 Leases was amended in relation to the accounting for a sale leaseback transaction where the payments are variable. See **Lease liability in a sale and leaseback: amendments to IFRS 16** for further details. • AASB 107*, Statement of cash flows* and AASB 7 *Financial instrument*: disclosures were amended to require new disclosures of supplier finance arrangements and the effects on an entity's liabilities, cash flows and exposure to liquidity risk. Comparative information (including opening balances) is not required to be disclosed in the initial year. See **It's time to get ready: new IFRS disclosures on supplier finance arrangements** for further details.
What's new in standard- setting that is effective for 31 December 2024 interim financial reports (i.e. 30 June 2025 year ends)?	The pronouncements that are effective for annual periods ending 31 December 2024 as highlighted above will also be effective for the interim periods ending 31 December 2024. However, we highlight that the new disclosure requirements for supplier finance arrangements are not required to be included in the interim period in the year of adoption. Further, the guidance in AASB 134 *Interim financial reporting*, par. 16A(g) would be followed with respect to the disclosure of segment information in the interim financial statements.

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What are the upcoming amendments and pronouncements available for early adoption?	See below the upcoming amendments and pronouncements that are available for early adoption: • AASB 121 *The Effects of changes in foreign exchange rates* was amended to address the accounting for a transaction or an operation in a foreign currency that is not exchangeable into another currency (effective for annual reporting periods beginning on or after 1 January 2025). See **Filling the gap in currency accounting: new IFRS requirements for lack of exchangeability** for further details. • AASB 9 *Financial instruments* and AASB 7 *Financial instruments*: disclosures was amended to: – Clarify the requirements for the timing and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system; – Clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion; – Add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and – Make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI). See **IASB issues targeted improvements to financial instruments standards** for further details. • AASB 18 *Presentation and disclosure in financial statements* (effective for annual periods beginning on or after 1 January 2027) replaces AASB 101 *Presentation of financial statements*, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though AASB 18 will not impact the recognition or measurement of items in the financial statements, its impacts on presentation and disclosure are expected to be pervasive, particularly those related to the statement of financial performance and providing management-defined performance measures within the financial statements. See PwC's In briefs for further information: – **IFRS 18 is here: redefining financial performance reporting** – **IFRS 18 - Key treasury topics for corporate entities** – **IFRS 18 - Insights for financial services companies**
Are you impacted by any decisions made by the Interpretations Committee (IFRIC) over the last 12 months?	It's important not to forget the matters that are debated by the Interpretations Committee. If they are relevant to you, their discussions may provide clarity as to how the matter should be considered. For a complete list of all agenda decisions, see: **Compilations of agenda decisions.** We have highlighted above an agenda decision with respect to segment reporting which may have a more pervasive impact across entities. Other agenda decisions over the past 12 months include the following topics: • If you are a parent entity that prepares separate financial statements for a merger transaction with your subsidiary, see the agenda decision: **Merger between a Parent and Its Subsidiary in Separate Financial Statements.** • Have you committed to reducing its emissions? This IFRIC addresses whether an entity's commitment to reduce or offset greenhouse gas emissions creates a constructive obligation such that a provision should be recognised: **Climate-related Commitments.** • Have you agreed to make payment to selling shareholders in a business combination that is dependent on continued service? This agenda decision confirms that such payments are post-combination remuneration. See **Payments Contingent on Continued Employment during Handover Periods.**

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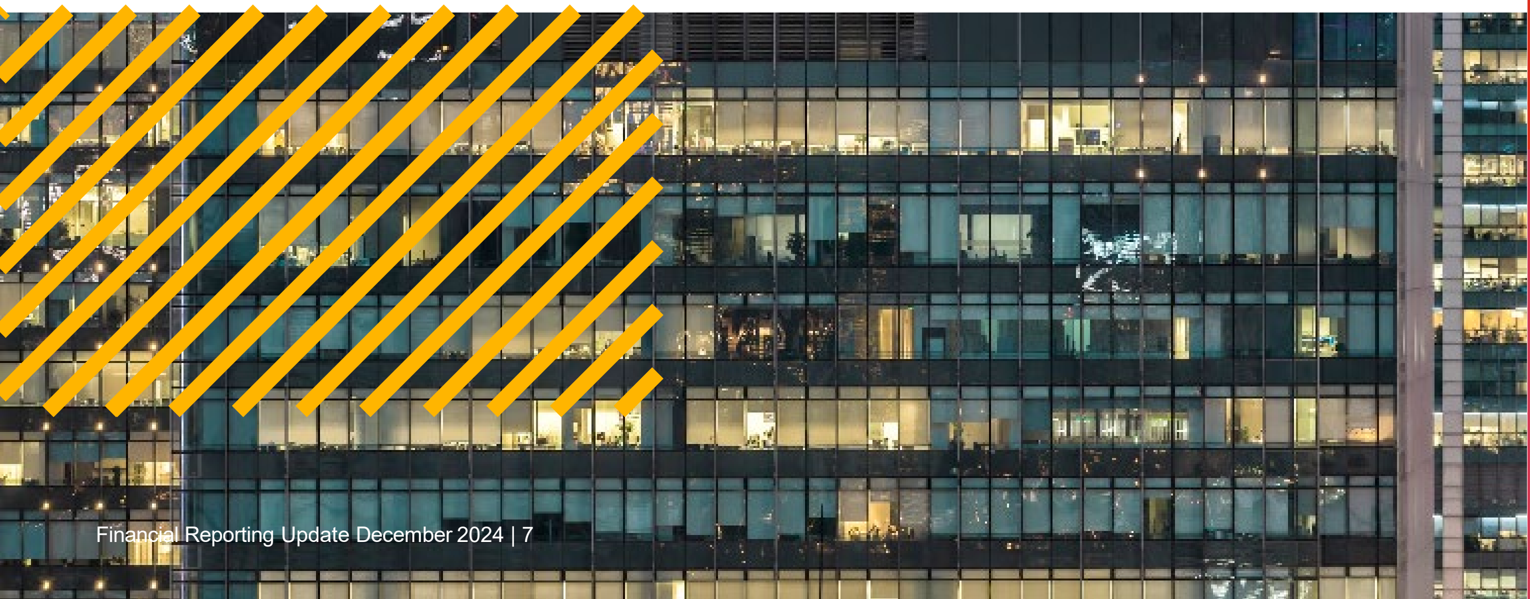
Sustainability reporting developments and the impacts of sustainability matters on financial reports at 31 December 2024	
Where can I go if I want to learn more about sustainability reporting developments?	On 20 September 2024, the Australian Accounting Standards Board (AASB) approved the final Australian Sustainability Reporting Standards (ASRSs). These standards are closely aligned with the IFRS Sustainability Disclosure Standards issued by the ISSB, ensuring global consistency and comparability. In response to these developments, PwC have prepared an **article** that: • Summarises the new Australian sustainability reporting requirements • Highlights the main differences from the exposure draft proposals, and the main differences from IFRS Sustainability Disclosure Standards that remain in the final standards • Details core mandatory requirements and reporting timelines • Shares practical steps for businesses to prepare, stay ahead, and ensure compliance PwC also published seven chapters in its Sustainability Reporting Guide. This guide serves as a comprehensive resource for guidance and insights on sustainability reporting, designed to help companies prepare for mandatory sustainability reporting. See the guide **here**.
What should an entity consider when reflecting climate matters in the financial statements?	In many cases, an entity’s exposure to climate-related risks might not have changed significantly since its last annual reporting period; however, climate-related risks remain an important topic for many investors and so entities should ensure that all material information affecting the financial statements in this respect is provided. Entities should also ensure consistency between financial and non-financial reporting on key climate-related assumptions, if these are relevant for the purposes of estimating and recognising IFRS compliant transactions/balances. If there is commentary in the annual report or a separate sustainability report that hasn’t been reflected in financial reporting (for example, because the entity is relying on a market participant’s assumptions which differ), the entity should consider the need for additional commentary on why such items have been reflected on a different basis in financial reporting. Both this **In brief** and this **In depth** provide guidance on reflecting the effects of climate-related matters in the financial statements. This **In depth** provides guidance on voluntary carbon markets.
How can you track the adoption of sustainability reporting laws for your territory?	To meet the growing demand from investors and stakeholders for improved disclosure, regulators and standard setters in different regions have introduced standards and regulations for sustainability-related disclosures. These efforts aim to enhance sustainability reporting. However, with numerous sustainability regulations emerging over the past decade, there can be overlaps, potential duplications, and various compliance requirements, leading to some uncertainty. PwC have launched the **Sustainability Reporting Adoption Tracker** which provides an overview of the local regulatory or legal sustainability reporting requirements by individual territory. The information in this tracker will continue to be updated.



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