Annexure E1

GAAP

Relevant Accounting Standards

Accounting Standard AC000

1. **Introduction**

Purpose and status

.01 This framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. The purpose of the framework is to:

(e) assist auditors in forming an opinion as to whether financial statements confirm with International Accounting Standards;

(f) assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with International Accounting Standards.

2. **The objective of financial statements**

.12 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decision.

.14 Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decision; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether or reappoint or replace the management.

3. Underlying assumptions

Accrual basis

.22 In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of the past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful in making economic decisions.

4. Qualitative characteristics of financial statements

.24 Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

5. Understandability

.25 An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial statement because of its relevance to the economic decision-making needs of users should be excluded merely on the grounds that it may be too difficult for certain users to understand.

6. Relevance

.26 To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

7. Materiality

.30 Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

8. <u>Reliability</u>

.31 To be useful, information must also be reliable. Information has the quality of reliability when it is **free from material error and bias** and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

.32 Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading.

9. <u>Neutrality</u>

.36 **To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.**

10. <u>Prudence</u>

.37 **........ Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated .....**

11. <u>Completeness</u>

.38 To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

12. <u>Comparability</u>

.39 **Users must be able to compare the financial statement of an enterprise through time in order to identify trends in its financial position and performance.**

.40 An important implication of the qualitative characteristic of comparability is that users be informed of the accounting polices employed in the preparation of the financial statements, **any changes in those policies and the effects of such changes.** Users need to be able to identify differences between the accounting policies for **like transactions and other events used by the same enterprise from period to period and by different enterprises.**

13. True and fair view/Fair presentation

.46 Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an enterprise. Although this framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information.

Annexure E2

Accounting Standard AC103

1. **Definitions**

.05 ***Fundamental errors*** ***are errors discovered in the current period that are of such significant that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.***

Accounting policies ***are the specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements***

2. **Profit or loss from ordinary activities**

.15 ***When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately, detailing, in the notes to the financial statements, the taxation effect, and any amount attributable to outside shareholders.***

3. **Fundamental errors**

.30 Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, **mistakes in applying accounting policies,** misinterpretation of facts, fraud or oversights. The correction of these errors is normally included in the determination of net profit or loss for the current period.

.31 On rare occasions, an error has such a significant effect on the financial statements of one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. These errors are referred to as a fundamental errors.

.33 ***The amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of retained earnings. Comparative information should be restated, unless this is not permitted by regulatory authorities or it is impracticable to do so.***

.34 The financial statements, including the comparative information for prior periods, are presented as if the fundamental error had been corrected in the period in which it was made. Therefore, the amount of the correction that relates to each period presented is included within the net profit or loss for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of retained earnings in the earliest period presented. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated.

.35 ***An enterprise should disclose:***

(a) ***the nature of the fundamental error,***

(b) ***the amount of the correction for the current period and for each prior period presented, detailing, in the notes to the financial statements, the taxation effect and any amount attributable to outside shareholders,***

(c) ***the amount of the correction relating to periods prior to those included in the comparative information, detailing, in the notes to the financial statements, the taxation effect and any amount attributable to outside shareholders, and***

(d) ***the fact that comparative information has been restated or the reason for not restating comparative information.***

4. Changes in accounting policies

.36 Users need to be able to compare the financial statements of an enterprise over a period of time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are normally adopted in each period.

.37 ***A change in accounting policy should be made only if required by statute, or by an accounting standard setting body, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise.***

.38 A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

5. Other changes in accounting policies

.45 *A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless this is not permitted by regulatory authorities or it is impracticable to do so.*

.48 *When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an enterprise should disclose:*

(a) the nature of and the reasons for the change,

(b) the amount of the adjustment for the current period and for each period presented detailing, in the notes to the financial statements, the taxation effect and any amount attributable to outside shareholders,

(c) the amount of the adjustment relating to periods prior to those included in the comparative information detailing, in the notes to the financial statements, the taxation effect and any amount attributable to outside shareholders, and

(d) the fact that comparative information has been restated or the reason for not restating comparative information.

Accounting Standard AC110

1. **Disclosure**

.27 ***In addition to the disclosure required by paragraph .1, the following disclosures should be made:***

(a) ***An appropriate listing and description of significant associates including the name, the nature of business, the proportion of ownership interest and, if different, the proportion of voting power held.***

(e) ***The investor's share of aggregate post acquisition reserves or deficits of associates.***

(g) ***Accounting periods for which the financial statements of the significant associates have been prepared where they are different from those of the investor.***

(h) ***The aggregate market value of investments in listed associates and the aggregate directors' valuation of investments in unlisted associates.***

(i) ***Distributions received from or accrued in respect of associates.***

(j) ***Gains or losses on sale of shares or other dilutions in investments in associates by the investor.***