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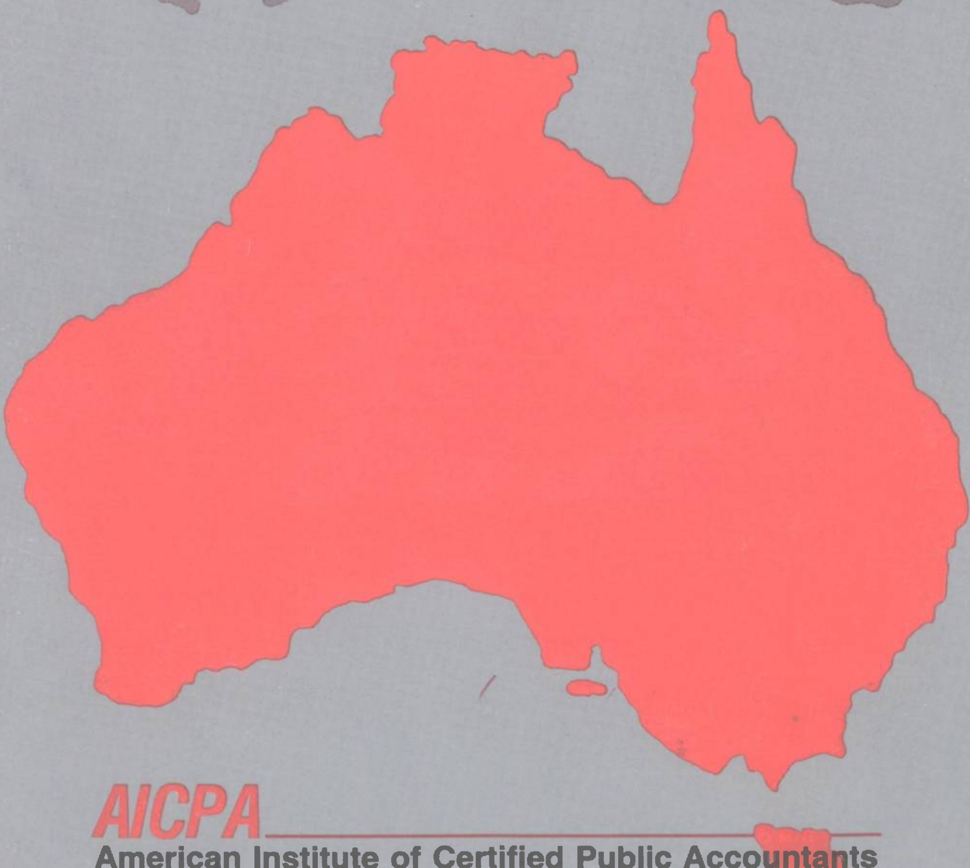
Accounting Profession in Australia; Professional Accounting in Foreign Country Series

Pannell Kerr Forster

Steven F. Moliterno

The Accounting Profession in Australia

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA
American Institute of Certified Public Accountants

The Accounting Profession in Australia
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
AICPA

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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The Accounting Profession in Australia

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Prepared by

Pannell Kerr Forster

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AICPA
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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of December 31, 1989. Changes after this date in the standards of either the United States or Australia may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Australia. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing auditing standards and accounting principles of Australia with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Australia but is designed instead to focus primarily on differences from those of the United States.

The editor wishes to acknowledge the assistance of his colleague, William Rea Lalli, CPA, who served as a consultant on this project.

John Graves
Director—Technical Services

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The Institute of Chartered Accountants in Australia (the "Institute") and the Australian Society of Accountants (the "Society") are the national bodies representing the accounting profession in Australia. These bodies regulate the conduct of their respective members, issue and revoke practice certificates, and administer national examinations for membership; and they can be reached at the following addresses:

Institute of Chartered Accountants in Australia
G.P.O. Box 3921 N.S.W.
37 York Street
Sydney 2001

Australian Society of Accountants
Accountants House
170 Queen Street
Melbourne 3000

Subject to certain exceptions, all companies are required under the Companies Code to elect an auditor to audit their financial statements[1] annually.

[1]The Australian professional literature and legislation use the term *accounts*. Accounts incorporate balance sheets, profit-and-loss accounts (i.e., statement of income and retained earnings) and include a directors statement and notes to the balance sheets and profit-and-loss accounts. In this booklet *accounts* has been replaced by the term *financial statements*.

2. The auditor must be a registered company auditor. To qualify for registration, an auditor must—

a. Satisfy the Commission for Corporate Affairs[2] (the "Commission") that he or she is a fit and proper person and is capable of performing the duties of an auditor.
b. Have sufficient practical experience in auditing.
c. Either 1) hold an appropriate degree or diploma from a prescribed institution in Australia and be a member of the Institute or the Society or 2) have other qualifications and experience that are equivalent to the above qualifications.

Foreign Reciprocity

3. The Institute and the Society generally offer reciprocity to members of recognized overseas accounting bodies (for example, members of the American Institute of Certified Public Accountants [AICPA] and persons who have been granted CPA status by a legally constituted state of authority in the United States) provided that the applicant—

a. Can demonstrate suitable educational qualifications and work experience.
b. Completes an approved course in Australian company and taxation laws and any other program required by the Institute or the Society.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

4. The Institute and the Society have jointly established the Australian Accounting Research Foundation (AARF). Within the foundation are the Accounting Standards Board, the Public Sector Accounting Standards Board, and the Auditing Standards Board.

5. The Australian government has established the Accounting Standards Review Board (ASRB), whose function is to consider

[2]The body that administers Companies Legislation in each state of Australia.

existing and proposed accounting standards and to approve those standards it considers appropriate. An Approved Accounting Standard becomes law under the Companies Legislation.

6. In September 1988 the ASRB merged with the AARF's Accounting Standards Board. The reconstituted ASRB is responsible for the development and promulgation of accounting standards for companies and for noncorporate reporting entities in the private sector. The ASRB's authority, established by the Companies Code, is limited to companies. The AARF will continue to promulgate accounting standards for noncorporate entities. In accordance with a joint arrangement among the Society, the Institute, and the Commonwealth government, the AARF will provide technical support to the ASRB.

7. A merger of the reconstituted ASRB with the AARF's Public Sector Accounting Standards Board is planned, which will result in a single body setting accounting standards for both the public and private sectors. Members of the Australian Accounting Bodies are required to comply with ASRB-approved accounting standards for companies (ASRBs) and Australian Accounting Standards (AASs) for noncorporate reporting entities. The two sets of standards contain nearly identical requirements.

Ethics Requirements

8. All Chartered Accountants (members of the Institute) and members of the Society are required to maintain the highest standards of professional conduct. The ethics rulings of the Institute and the Society are based on principles that are quite similar to the AICPA Code of Professional Conduct and cover such areas as integrity, objectivity, independence, confidentiality, technical standards, professional competence, and behavior.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

9. A person applying for associate membership of the Institute must be at least twenty-one years old, have passed the prescribed

examinations, and have completed a three-year service period in the full-time employment of a member of the Institute. The Society has similar requirements for admission.

10. A member in practice is required to maintain a valid practicing certificate by satisfying the established continuing professional education requirements and by paying prescribed annual fees and dues.

Rights of Membership

11. Members of the Institute or the Society have the right to use the designation applicable to their status. For example, members of the Institute may use the designation "Chartered Accountant" and, depending on their level of experience, may use the initials ACA (Associate Chartered Accountant) or FCA (Fellow Chartered Accountant). Members may apply for advancement in status (for example, become a Fellow of the Institute or the Society). Members also have the right to receive notices of meetings and vote at such meetings on issues concerning the profession, comment on the standards of practice proposed for adoption, and practice in the state or territory for which proper application has been made and approved.

Number of Members

12. As of December 31, 1989, the approximate numbers of members of the Institute and the Society were 18,600 and 57,500, respectively. Many accountants are members of both organizations.

CPE Requirements

13. Members of both accounting bodies have a duty to maintain a high level of professional knowledge and skill throughout their professional careers. They are obliged to undertake continuing professional education on matters appropriate to their field of practice; for example, members of the Institute must complete a minimum of forty hours of CPE each year and twenty of those hours must be "structured CPE." Structured CPE consists

of formal courses conducted by various authorized organizations and includes in-house seminars. Members are required to keep personal records of CPE attendance and provide a signed statement at the time of their annual subscription payment. Failure to comply with CPE requirements may result in license revocation.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

14. Statement of Auditing Standards (AUS) 1 prescribes the standards applicable to all audits undertaken by members of the two accounting bodies. The primary objective of the normal company audit is the expression of an independent professional opinion on the truth and fairness of the financial statements presented to shareholders. The auditor is concerned with the adequacy of the underlying records and with the detection of major distortions in the financial statements arising from inappropriate or biased use of accounting standards or methods. To provide a sound basis for his or her opinion, the auditor examines the credibility of the representations made by the directors in the financial statements. This involves a review of the available evidence underlying the data on which these are based.

Entities Required to Be Audited

15. All companies except "exempt proprietary" companies must appoint auditors to audit their financial statements annually. An exempt proprietary company (that is, a private company with no public company shareholders) is not required to have such audits or appoint an auditor if, within one month preceding its annual general meeting, all shareholders of the company have agreed that it is not necessary.

16. Irrespective of whether financial statements are audited, the directors are responsible for ensuring that the financial state-

ments comply with the disclosures required by the Companies Code and are prepared in accordance with approved accounting standards. The statutory disclosures required for exempt proprietary companies are considerably less onerous than those required for other companies.

Appointment and Qualifications of Auditors

17. The appointment of a new auditor is made at the company's annual general meeting by a resolution passed by not less than three-quarters of the voting shareholders of the company. For newly incorporated companies, an auditor must be appointed within one month from the date of incorporation. The auditor will generally hold this office until resignation or removal by the voting shareholders of the company. An auditor of a company can be removed from office by a resolution of the company at a general meeting when special notice of the resolution has been given. If special notice of a resolution to remove an auditor is received by the company, the company must send a copy of the notice to the auditor and to the Commission. In such a situation, the auditor has the right to make written representations to the company and request that these be forwarded to the shareholders.

18. The audit must be performed by a qualified registered company auditor or by an auditing firm of which at least one member is a registered company auditor. The auditor must be registered to practice in the state or territory in which the company is located. Unless the company is an "exempt proprietary" company, the auditor (person or firm) may not be any of the following:

a. A partner, employer, or employee of the company

b. An officer of the company

19. In addition, an auditor may not act as company auditor if the auditor, or a corporation in which the auditor is a substantial shareholder, owes the company or a related company more than A$5,000.

20. In addition to the foregoing statutory rules, the Australian Accounting Bodies have issued the following ethical rulings governing the professional independence of auditors:

a. An auditor or relative of the auditor is prohibited from—

- Being a beneficial owner of shares in an audit client that form a material part of the equity share capital of the client or form a material part of the assets of the auditor.
- Acting as the trustee of a trust or as a director of a corporate trustee company that has a material interest in an audit client.
- Accepting, making, or guaranteeing a loan from or to an audit client unless the loan is negotiated at arm's length in the ordinary course of the client's business. (Even if the latter condition is met, auditors are cautioned to consider whether such a loan may have an impact on their professional independence.)
- Accepting from an audit client goods or services on terms more favorable than those generally available to others.

b. An auditor is prohibited from—

- Accepting or retaining a directorship of a company that exerts significant influence over another company that is an audit client.
- Acting in an executive decision-making role when providing management consulting services to an audit client.
- Except in unusual circumstances, participating in the preparation of the books of account of a public company audit client.

Auditing and Reporting Responsibilities

21. Company directors (*a*) have a statutory obligation to ensure that the financial statements give a true and fair view of the financial position and operating results of the company and (*b*) must state annually in the financial statements whether in their opinion the company will be able to pay its debts as and when they mature. Company directors also have an obligation to ensure that the financial statements have been prepared in accordance with applicable ASRBs and, if not, the reasons for, and financial effect of, any departure. Directors are responsible for ensuring that the company safeguards its assets and maintains a complete and adequate set of accounting records and statutory registers.

22. Before financial statements are prepared, directors are required to take reasonable steps to ensure the following:

a. Bad debts have been written off, and an allowance for doubtful accounts is established.

b. The carrying amounts of current assets do not exceed realizable values.

c. The carrying amounts of noncurrent assets do not exceed replacement values.

23. The following are an auditor's statutory obligations:

a. The auditor must form an opinion as to the truth and fairness of the matters contained in the financial statements and must report accordingly to the shareholders of the company.

b. The auditor must form an opinion on various specific matters, such as whether proper accounting records have been maintained, and must report any deficiency or failure.

c. If there has been a departure from an approved accounting standard, the auditor must, within seven days of furnishing his or her report to the company's directors, send a copy of that report to the ASRB.

24. The auditor is also required to take certain specified actions, including reporting in writing to the Commission, whenever breaches of the Companies Code are identified.

25. The auditor of a company that has raised funds from the public (a borrowing corporation) has the responsibility to report to that company and to the trustee for debenture holders, if there is concern that the interests of the holders may be prejudiced.

26. An auditor has a right of access at all reasonable times to all accounting and other records, including registers of the company and subsidiaries. For the purposes of the audit, the auditor has a right to obtain information or any necessary explanation from any company officer. The Code provides for substantial penalties if an auditor's completion of an audit is obstructed.

27. An auditor (or an agent authorized by the auditor) is entitled to—

a. Attend any general meeting of the company.

b. Receive all notices and other communications that a shareholder receives.

c. Speak at any general meeting on matters that concern the auditor in an official capacity.

28. An auditor normally determines the scope of an examination in accordance with Australian Statements of Auditing Standards and Practice, the requirements of relevant legislation and regulations, and the terms of the audit engagement.

29. Paragraph 9 of AUS 1 states that "it is essential that there is a clear understanding between the auditor and client as to the extent of audit duties, particularly when there is no specific statutory duty involved. Such understanding shall be evidenced in writing."

Filing of Reports

30. The auditor's report must be attached to the financial statements and sent to shareholders by the company not less than fourteen days before the annual general meeting. The annual general meeting must be held within five months (six months in the case of an exempt proprietary company) after the end of the financial year.

31. Every company must then file within one month after the annual general meeting an annual return with the local Commission. Companies that are not exempt proprietary companies must also file a copy of the financial statements together with the auditor's report.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

32. Australian auditing standards are similar to those of the United States. AUS 1 contains the standards that must be maintained by members in the course of their work and are applicable to all audits.

General Standards

33. The following are the ten basic auditing standards contained in AUS 1.

Integrity, Objectivity, and Independence

34. Auditors shall be straightforward, honest, and sincere in their approach to their professional work. They must be fair and must not allow prejudice or bias to override their objectivity. They shall maintain an impartial attitude and both be, and appear to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

Confidentiality

35. Auditors shall respect the confidentiality of information acquired in the course of their work and shall not disclose any such information to a third party without specific authority or unless there is legal or professional duty to disclose.

Skills and Competence

36. The audit shall be performed and the report prepared with due professional care by persons who have adequate training, experience, and competence in auditing.

Standards of Fieldwork

Work Performed by Assistants

37. When auditors delegate work to assistants, they shall carefully direct, supervise, and review the work delegated.

Work Performed by Other Auditors and Experts

38. When auditors use the work performed by other auditors or experts, they continue to be responsible for forming and expressing an opinion on the financial information. Auditors shall obtain reasonable assurance that work performed by other auditors or experts is adequate for their purposes.

Documentation

39. Auditors shall document matters that are important in providing evidence that the audit was carried out in accordance with Auditing Standards and Practice Statements.

Planning

40. Auditors shall plan their work to enable them to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business and shall be further developed and revised as necessary during the course of the audit.

Audit Evidence

41. Auditors shall obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable them to draw reasonable conclusions on which to base their opinion regarding the financial information.

Accounting System and Internal Control

42. Auditors shall gain an understanding of the accounting system and related internal controls and shall study and evaluate the operation of those internal controls on which they wish to rely in determining the nature, timing, and extent of other audit procedures.

Standards of Reporting

Audit Conclusions and Reporting

43. Auditors shall review and assess the conclusions drawn from the audit evidence obtained as the basis for expressing their opinion on the financial information. The review and assessment involves forming an overall conclusion as to whether—

a. The financial information has been prepared in accordance with Australian Accounting Standards (AASs) issued by the Society and the Institute and has been consistently applied.
b. The financial information complies with relevant regulations and statutory requirements.
c. The view presented by the financial information as a whole is consistent with the auditor's knowledge of the entity's business.
d. There is adequate disclosure of all material matters necessary to give a true and fair view.

44. The audit report shall contain a clear written expression of opinion on the financial information. An unqualified opinion indicates the auditor's satisfaction in all material respects.

45. If there has been a material departure from an AAS, the auditor shall (except in the rare circumstances referred to in the following paragraph) express an exception or adverse opinion. The audit report shall contain a clear description of the substantive reasons for the qualifications and, unless impractical, a quantification of the possible effects on the financial information. This information shall be presented in a separate paragraph preceding the opinion and may also include a reference to a more extensive discussion in a note to the financial statements.

46. The issue of an AAS establishes that the information to be generated by the application of the Standard is relevant to users and, therefore, shall be provided in the financial information. It is recognized, however, that in rare circumstances an AAS may not be applicable because its application would result in misleading financial information. In such cases, the departure shall be detailed in the auditor's report, together with the auditor's reasons for concurrence with the departure. In these circumstances, it is not sufficient that the auditor merely concludes that an available alternative results in an appropriate presentation.

47. On occasion, if the selection of accounting policies is not governed by a specific AAS, the auditor must be satisfied that the accounting policies adopted meet the criteria of AAS 6, *Accounting Policies: Determination, Application and Disclosure*, and that those policies are generally accepted by the accounting profession and the business community.

48. When an exception opinion, adverse opinion, or a disclaimer of opinion is given, the audit report shall state the reasons in a clear and informative manner.

49. In addition to the AUSs there are Statements of Auditing Practice (AUPs). The AUPs provide authoritative guidance on specific audit procedures by which the auditing standards may be applied. The Statements of Auditing Standards and Auditing Practice apply to all audits in the private and public sectors. Any limitation on the applicability and scope of a statement is expressly stated in the statement. The AUPs are similar to the Statements on Auditing Standards (SASs) issued by the AICPA. In general, they are not nearly as extensive or comprehensive. See appendix A for a list of all current AUPs through December 31, 1989.

50. Circumstances may require a departure from an unqualified report. The following situations (discussed in AUP 3, *The Auditor's Report on Financial Statements*) require qualified reports:

a. A limitation exists on the scope of the auditor's work imposed by the client.

b. A disagreement occurs with management with respect to the financial statements.

c. There exists a material uncertainty affecting the financial statements, the results of which depend on future events.

51. A "disagreement with management" is analogous to what U.S. auditing standards call "a departure from generally accepted accounting principles (GAAP)." It would require a qualified "except for" opinion or an adverse opinion, depending on the circumstances. The auditor's report should clearly describe the nature of the disagreement and, if possible, quantify its effects.

52. When there has been a limitation of scope on the auditor's work, the auditor's report should describe the limitation and indicate that the opinion is qualified as to possible adjustments that may have been determined had the limitations not existed. An auditor should not accept client-imposed limitations that infringe on his or her statutory duties.

53. An uncertainty would require a "subject to" opinion or a disclaimer of an opinion, depending on the circumstances. The auditor's report should describe the uncertainty and make reference, where applicable, to the notes to the financial statements if a more extensive discussion would detail the nature of the uncertainty.

Using the Work of Another Auditor

54. The auditor of a group of companies has a statutory duty to disclose in his or her report the names of any subsidiaries of which he or she has not acted as auditor and also the particulars of any qualification or comment made in the audit report of a subsidiary company. With respect to foreign subsidiaries, however, the auditor—

a. Does not have to disclose the name of a foreign subsidiary of which he or she has not acted as auditor provided he or she has examined the auditor's report and is satisfied that it is based on Australian auditing and accounting standards.

b. Does not have to give particulars of any audit qualification or comment of a foreign subsidiary provided he or she has examined the auditor's report and is satisfied that it is based on Australian auditing and accounting standards and that the qualification or comment relates solely to departures in a foreign jurisdiction and that the departures do not involve a failure to comply with Australian auditing or accounting standards.

55. In situations in which certain subsidiaries in a group of companies have different auditors, the responsibility for forming an audit opinion on the group rests with the auditor of the parent company; there can be no division of responsibility.

56. In Australia, it is permissible for two auditors to jointly audit a company's financial statements and jointly sign the opinion.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

57. As indicated previously, the AARF and the ASRB are responsible for the development and promulgation of accounting standards.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

58. The directors must ensure that the financial statements comply with all of the statutory disclosures applicable to their company (these vary according to company status and, in certain cases, size), and they have the additional responsibility of adding the information and explanations that are necessary to give a true and fair view when the statutory disclosures fail to do so.

59. In the statement by the directors, which forms an integral part of the financial statements, the directors are required to—

a. State whether in their opinion the financial statements give a true and fair view.

b. State whether in their opinion at the date of the statement there are reasonable grounds to believe that the company will be able to pay its debts.

c. State whether the financial statements have been prepared in accordance with applicable approved accounting standards, or if this has not been done—

- State why the accounts, if prepared in accordance with the standard, would not have given a true and fair view.
- Quantify the financial effect of the departure.

60. The directors' report is a separate document, and unlike the directors' statement, it is not subject to audit. The contents of the report vary according to a company's status (for example, dormant or public company). The directors' report for a public company would include the following:

- Directors' names, qualifications, experience, and any special responsibilities
- Directors' shareholdings
- Certain director benefits
- Directors' interests in contracts or proposed contracts with the company
- The principal activities of the company, including any significant changes
- The net income after provision for income tax
- The dividend declaration, if any
- A review of operations and results of operations
- Significant changes in financial position
- Events after the balance sheet date that may significantly affect the operations or state of affairs in future years
- Details of outstanding share options
- Likely future developments and expected results (except if disclosures would prejudice the interests of the company)

61. The report must be signed by at least two directors not less than fourteen days or more than fifty-six days before the annual general meeting.

62. In addition to the statutory requirements of the Companies Code, listed companies must also comply with the requirements of the Australian Stock Exchange.

63. The financial reporting of public sector entities is governed by relevant commonwealth or state legislation, as well as by relevant accounting standards. Public sector entities must also comply with those accounting standards that are applicable to the public sector.

Types of Statements Prepared

64. Financial statements normally include the following:

- Profit-and-loss account
- Balance sheet
- Notes to the financial statements (including sources and application of funds)
- Statement by directors

65. The structure of Australian corporate financial reporting is governed by the following:

Source	*Element*
Companies Act and Code	Disclosure and some accounting methodology
Schedule 7 to the Companies Act and Code	Disclosure
ASRBs	Disclosure and accounting methodology
AASs	Disclosure and accounting methodology
Accounting Guidance Releases	Disclosure and accounting methodology
National Companies and Securities Commission (NCSC) Policy Statements and Practice Notes	Disclosure
NCSC Class Orders	Disclosure and accounting methodology
Australian Stock Exchange (ASX) Listing Rules	Disclosure

66. Under the Companies Code a parent-subsidiary relationship will exist if the parent company (*a*) controls the composition of the board of directors of the subsidiary, (*b*) controls more than one-half of the votes that might be cast at a general meeting of the subsidiary, or (*c*) holds more than one-half of the issued shares that have voting rights.

67. The Companies Code requires that group accounts be prepared for the parent company and its subsidiaries. The group accounts do not have to be consolidated and can be made up by sets of separate accounts. However, if accounts are not consolidated, a note must be included stating the reason for the nonconsolidated format and the financial impact of intercompany transactions and balances. Only companies are consolidated under the Code. An accounting exposure draft issued in 1987 proposes that all entities that are controlled by the parent company be consolidated. Before this exposure draft can be translated into an accounting standard applicable to companies, it will be necessary for the Companies Code definitions of subsidiary company and group accounts to be amended.

68. Schedule 7 of the Companies Code, which mandates corporate disclosure requirements, differentiates among companies based on their form and size. The purpose is to restrict more comprehensive reporting to those companies with significant public investments or to those that have incurred significant debt obligations. Presentation requirements for exempt proprietary companies are substantially smaller in scope than those for nonexempt companies, listed corporations, and borrowing companies (that is, companies having borrowings from the public).

69. An interesting feature of Australian corporate reporting is the power vested in the NCSC to issue "class orders" relieving the directors of specified individual companies or classes of companies from compliance with specified financial statements and audit provisions of the Companies Code. Many Australian parent companies have taken advantage of the class order that exempts wholly owned subsidiaries from preparing separate financial statements and from having these statements audited.

70. Schedule 7 requires fixed-balance-sheet and profit-and-loss account formats. Where applicable, the exact titles and words are to be used in the prescribed sequence. Departures are permitted only to correct financial statements that would otherwise not present a true and fair view.

71. Individual revenue and expense items are not required to be presented on the face of the income statement. Schedule 7 requires these items to be disclosed in the notes to the financial

statements. In practice, however, some companies are presenting major revenue and expense items (that is, sales, other revenue, depreciation, and interest expense) on the face of the profit-and-loss account.

Sources and Applications of Funds

72. Disclosure of material flows of funds during the financial period is required for all companies other than exempt proprietary companies. Specific disclosures include (*a*) gross inflows of funds from operations, sales revenue, and other operating revenue; (*b*) gross outflows of funds from operations; and (*c*) gross flows of funds for items such as income tax paid, dividends paid, and changes in current and noncurrent assets or liabilities.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

73. Assets and liabilities are classified in the financial statements according to their nature or function. There is a presumption underlying Australian accounting principles that assets should not be carried in excess of their recoverable amounts. The recoverable amount means the amount that is expected to be recovered either (*a*) from the total cash inflows less the relevant cash outflows arising from an asset's continued use and through its subsequent disposal or (*b*) through sale of the asset.

74. A current asset is defined by the Companies Code as "cash or other assets that would, in the ordinary course of business, be consumed or converted into cash within 12 months after the end of the last financial period." A current liability is defined as "a liability that... would be due and payable within 12 months."

Asset Revaluations

75. A major difference between Australian and U.S. accounting practice is that Australian companies are allowed the option of revaluing noncurrent assets. The relevant accounting standard (AAS 10) is only concerned with how to account for and disclose

revaluations rather than when they should occur and on what basis they should be carried out.

76. When a noncurrent asset is revalued, the entire class of assets to which it belongs must be revalued on a consistent basis. At the same time, any accumulated depreciation existing at the date of revaluation must first be credited against the asset account to which it relates.

77. A revaluation increment in a class of assets is credited to an asset revaluation reserve. If the increment is a reversal of a revaluation decrement previously charged against income, it is credited to income.

78. A net revaluation decrement is debited to income except to the extent that it reverses a revaluation increment previously credited to, and still remaining in, the asset revaluation reserve. In such a case it is debited to the reserve.

79. Revaluation increments and decrements may only be offset within the same class of noncurrent assets. After revaluation, the carrying amount of class of noncurrent assets must not exceed the recoverable amount of all the assets in the class.

Inventories

80. Inventories are valued at the lower of cost or net realizable value. Where practical, each item of inventory is valued separately, although similar items may be dealt with as a group. The cost of inventories is defined in AAS 2, *Valuation and Presentation of Inventories in the Context of the Historical Cost System,* as the "aggregate of the cost of purchase, the cost of conversion and other costs incurred in the normal course of operations in bringing the inventories to their present location and condition." Cost of conversion will include an appropriate share of both fixed and variable costs. The following are acceptable methods of assigning costs to inventories: specific identification; weighted average cost; first in, first out (FIFO); and standard cost. The last in, first out (LIFO) method is not permissible.

Investments and Equity Accounting

81. If an investor company can exert significant influence over another company in which it has an investment, the investor com-

pany must, under AAS 14, *Equity Method of Accounting,* disclose equity accounting information but this must not be incorporated into the main statutory financial statements. Although the information may be presented as a third column in the financial statements, the NCSC has ruled that the financial statements may not be accepted for filing if undue emphasis is placed on the presentation of equity accounting information. *Significant influence* is defined in AAS 14 as the "capacity of an investor to affect substantially either, or both, of the financial and operating policies of an investee." Significant influence is normally presumed to exist when a company holds 20 percent or more of the voting power in an investee; however, depending on the circumstances, significant influence could occur in situations in which less than 20 percent of the voting power is held (for example, representation on the board of directors of the investee or material intercompany transactions between the investor and investee). If a company can control another company, a parent-subsidiary relationship will exist and group accounts (usually in consolidated format) are required.

Acquisitions of Assets and Business Entities

82. Acquisitions of assets or shares (including entire business entities) are accounted for under the cost method. The pooling-of-interest method is not permitted. The cost of acquisition is equal to the sum of the purchase consideration given (at fair market value) plus any costs incidental to the acquisition.

Goodwill

83. *Goodwill* as defined in AAS 18, *Accounting for Goodwill,* is the future benefits from assets that are not capable of being both individually identified and specifically recorded in the financial statements. Internally generated goodwill is not recognized because it is not susceptible to reliable measurement. Purchased goodwill, however, is recorded in the financial statements as an asset. Goodwill is measured as the excess of the purchase consideration plus incidental expenses over the fair values of identifiable net assets acquired. Goodwill is amortized over the period it is expected to benefit, and this period is not to exceed twenty years. The ability of unamortized goodwill to generate future economic benefit is evaluated at each balance-sheet date and written down to

reflect a permanent decline in value or change in estimate, when necessary. It cannot be revalued upward under any circumstances.

Expenditure Carried Forward

84. AAS 9, *Expenditure Carried Forward to Subsequent Accounting Periods*, recommends that an expenditure should only be carried forward to subsequent accounting periods if (*a*) it is material, (*b*) it does not relate to revenue that has been recognized, (*c*) it can be clearly identified as contributing to future revenue-earning capability, and (*d*) the business expects either to generate sufficient future revenue to absorb the amount carried forward or realize at least the book value of any amount carried forward. If these criteria are not met, the expenditure must be expensed when incurred.

Research and Development

85. Research and development (R&D) is defined, and the method for its accounting is described, in AAS 13, *Accounting for Research and Development Costs*. R&D costs incurred during a period are deferred only to the extent that identifiable future benefits are expected, beyond any reasonable doubt, to equal or exceed those costs. Deferred costs are amortized beginning with commercial production of the new product or process over the periods in which benefits are expected from the sale or use of the product or process. Deferred costs are reviewed regularly. When the criteria for deferral are no longer met, the unamortized balance is written off.

86. Financial statements are required to disclose the amount of deferred R&D costs and the basis for deferral and amortization. R&D activities conducted for others under contract and specialized R&D activities in extractive industries are not covered by the standards.

Leases

87. AAS 17, *Accounting for Leases*, divides leases into two categories (finance leases and operating leases) and specifies accounting and disclosure requirements for each category. Lease classification is based on the economic substance of the lease transaction. If substantially all of the risks and benefits of ownership are passed to

the lessee, a finance lease exists. Otherwise, the lease is an operating lease. The following criteria are used for recognition of a finance lease:

a. The lease is noncancelable.
b. Either 1) the lease term is equal to 75 percent or more of the useful life of the property or 2) the present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the property.

88. Lessees capitalize finance leases by recognizing the right to use the leased property as an asset and recording their obligation for minimum lease payments as a liability. The value of the asset and related liability is determined by the present value of the minimum lease payment, less any estimated unguaranteed residual value to the lessor at the end of the lease term. The capitalized lease is amortized over the lease term or, if the title is to be transferred to the lessee at the end of the lease term, over the asset's useful life. Lease payments should be apportioned between interest (computed at the rate implicit in the lease) and principal. Operating lease payments (rents) are charged to expense in equal amounts over the period of the lease term.

89. Lessors are required to subclassify finance leases into direct financing, sales-type, or leveraged leases. A separate statement on accounting for leveraged leases has been proposed but is not yet in effect. In a direct financing lease, the lessor records the investment as a receivable equal to the present value of the minimum lease payments plus the present value of any unguaranteed residual value. The difference between the investment as recorded and the fair value of the leased asset represents "finance revenue" to be recognized progressively over the lease term. The interest component of each lease payment is determined by applying the implicit interest rate to the balance of the lessor's net investment in the lease at the start of each period.

90. Under a sales-type lease, the lessor must recognize gross profit or loss on the lease transaction based on the difference between the fair value and the cost (or carrying amount) of the leased asset at inception. The lessor's investment in the lease is handled in the same manner as for a direct financing lease. For

operating leases, lessors recognize revenue as earned over the lease term.

Income Tax

91. Income tax expense is calculated on the pretax accounting income after adjusting for items that, as a result of their treatment under income tax legislation, create permanent differences between pretax accounting income and income subject to tax. The difference between income tax expense and income tax payable consists of timing differences that arise when items of revenue and expenses are recognized in the financial statements in periods that are different from the periods in which they are assessable or allowable for income tax purposes. The tax effect of such timing differences is represented in the balance sheet as "future income tax benefits" or "provisions for deferred income tax," at current tax rates. Balance-sheet amounts are amended as tax rates change. Future tax liabilities are always recorded. A future income tax benefit is only recorded as an asset when realization of the benefit can be regarded as being assured beyond reasonable doubt. Realization is dependent on the ability of the company to generate profits in future periods. The future tax benefit and future tax liability may be offset when they are expected to reverse in the same accounting period.

Construction Contracts

92. The percentage-of-completion method is the preferred method for recognizing revenue from construction contracts. AAS 11, *Accounting for Construction Contracts*, establishes criteria for using the percentage-of-completion method for both cost-plus and fixed-price contracts. The measurement and other recognition requirements relating to the percentage-of-completion method in Australia are similar to those required in the United States.

Foreign Currency Translation

93. AAS, 20, *Foreign Currency Translation*, requires companies to record foreign currency transactions in the domestic currency using exchange rates in effect at the transaction date. Foreign currency monetary items outstanding at the balance-sheet date are translated at the current rate at that date.

94. Immediate recognition in the profit and loss account of exchange differences relating to all foreign currency monetary items is required except when—

a. Related or attributed to a qualifying asset under construction.
b. Related to hedge transactions for the purchase or sale of goods or services.
c. Related to a discount or premium included in the cost or gain arising at the time of entering into a hedge transaction.
d. Related to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation (one that is financially and operationally independent and whose operations do not normally expose the reporting entity to foreign exchange gains and losses).

95. Exchange differences relating to foreign currency monetary items, forming part of the net investment in an independent foreign operation, are transferred, upon consolidation, to a reserve account called "foreign currency translation reserve."

Current Cost Accounting

96. Although not required, the profession urges all entities to present "current cost accounting" (CCA) financial statements as a supplement to conventional statements. Guidelines on the presentation and disclosure of CCA statements are found in Statements of Accounting Practice (SAP) 1.

Related Party Disclosures

97. AAS 22, *Related Party Disclosures*, requires the disclosure by all companies other than exempt proprietary companies of certain related party information. A *related party* is defined, in relation to an entity, as one of the following:

a. Any other entity that, at any time during the financial period, has control or significant influence over the entity
b. Any other entity that, at any time during the financial period, is subject to control or significant influence by the entity
c. Any other entity that, at any time during the financial period, is controlled by the same entity that controls the entity (referred to as a situation in which entities are subject to common control)

d. Any other entity that, at any time during the financial period, is controlled by the same entity that significantly influences the entity

e. Any other entity that, at any time during the financial period, is significantly influenced by the same entity that controls the entity

f. Any other entity under the joint or several control or significant influence of such directors, spouses, or relatives

98. This definition excludes any other entity if the relationship results solely from normal dealings of financial institutions, authorized trustee corporations, fund managers, trade unions, statutory authorities, government departments, or local governments.

99. In determining the existence of related party relationships, attention is directed to the substance of the relationship and not merely its form. The disclosure requirements set out in the standards include—

a. The following disclosures, if material transactions with related parties have occurred during the financial period:
   - The identities of the related parties involved, grouped into classes according to the nature of the related party relationship
   - Each different type of transaction, showing the identities of related parties involved
   - The nature of the terms and conditions of each different type of transaction
   - For each different type of transaction, the aggregate amount that involved related parties

b. The aggregate amounts of interest revenue, interest expense, and dividend revenue resulting from transactions with each class of related party

c. Any ownership interest in a related party

d. The name of each person holding the position of director at any time during the financial period

e. Disclosures relating to directors' income, loans to directors, and retirement payments to or on behalf of directors and principal executive officers that are similar to those already required under Schedule 7 of the Companies Code

Extinguishment of Debt or Defeasance

100. Under AAS 23, *Set-off and Extinguishment of Debt*, debt may be extinguished by repayment or refinance, through legal defeasance, or through an in-substance defeasance. Under AAS 23 a legal defeasance is defined as "the release of the debtor from the primary obligation [which] is either acknowledged formally by the creditor or by a duly appointed trustee of the creditor, or established by legal judgement." Whereas an in-substance defeasance is "a defeasance other than a legal defeasance in which the debtor effectively achieves release from the primary obligation for a debt either by placing in trust assets which are adequate to meet the servicing requirements (both interest and principal) of the debt or by having a suitable entity assume responsibility for those servicing requirements." Gain or loss on extinguishment must be recognized in the period when the defeasance arrangement is entered into. The Australian standards do not preclude accounting for an instantaneous in-substance defeasance as an extinguishment provided the conditions described in the standards for in-substance defeasances are met. In all cases it is highly improbable that the debtor will be required to assume again any of the primary obligations for the debt-servicing requirements (interest or principal) or to satisfy any guarantee, indemnity, or the like relating to such requirements. For a debt to be accounted for as having been extinguished through an in-substance defeasance, either (*a*) risk-free assets are irrevocably transferred to an independent trust or (*b*) a risk-free entity assumes responsibility for the servicing of the debt.

101. *Risk-free assets* are defined as cash or securities of a risk-free entity that are denominated in the same currency as the debt being defeased. A "risk-free entity" means a creditworthy government or a body guaranteed under statute by such a creditworthy government.

102. Any difference between the carrying amount of an asset given up in defeasance of a debt and the carrying amount of the debt is taken to profit and loss. The carrying amounts of the assets and liabilities involved are determined by discounting future cash flows at interest rates implicit in the transactions giving rise to the assets and liabilities.

103. Split defeasance (that is, the accounting for the defeasance of principal and interest separately) is prohibited. A debt can only be accounted for as a partial defeasance if proportionate amounts of both principal and interest are accounted for as having been extinguished.

104. The following disclosures are required in a period in which defeasance takes place:

a. The aggregate carrying amount of assets given up

b. The aggregate amount of debt extinguished

c. The net gain or loss on defeasance

d. Details of any amounts defeased that are outstanding, including guarantees, indemnities, etc.

105. In contrast to U.S. standards, in which extinguishment of debt is treated as an extraordinary item, classification of the gains and losses on extinguishment under Australian standards would depend on whether the extinguishment arose from ordinary operations.

Setoff of Assets and Liabilities

106. Assets and liabilities are normally not permitted to be offset against each other on the balance sheet. However, if a "legal right of setoff" exists, it is permissible. Under AAS 23, a "right of setoff" means a right that—

a. Exists when each of two entities owes the other determinable amounts.

b. Allows the reporting entity to set off the amount owed against the amount owed by the other entity.

c. Is intended to be exercised by the reporting entity.

d. Is recognized at law or in equity.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

107. The following are the principal forms of business organizations in Australia:

- Sole proprietorships
- Partnerships and joint ventures
- Companies (corporations)
- Foreign branches
- Trusts

Entities With Corporate Attributes

108. Companies and securities law in Australia is a cooperative endeavor between the Commonwealth and the six states and territories. Political responsibility for its formulation and operation rests with the Ministerial Council for Companies and Securities. The Ministerial Council is composed of one Commonwealth minister and a minister from each of the six states (usually the attorney general). The NCSC, which is accountable to the Ministerial Council, has the responsibility for the area of policy and administration of companies legislation. Most of its administrative responsibilities have been delegated to the Corporate Affairs Commission in each state. With respect to policy matters, "the Commission's role is not restricted to the adjudication of specific matters, but... extends to the formulation of policies within the framework of powers and functions conferred upon it."[1] The NCSC provides rulings and

[1]NCSC Policy Statement No. 100.

interpretations of the companies legislation when required and also has investigative powers that it can exercise if it is reasonably satisfied that an offense may have been committed under the legislation.

109. The Australian government has passed legislation that will give it sole control over companies and securities law. This legislation has been challenged by three states, which question the Australian federal government's constitutional right to introduce such legislation. Should a Court judgment support the federal government, the present system will change and a new body, the Australian Securities Commission (ASC), will take over from the NCSC and report directly to the federal government.

110. Three pieces of legislation govern the existing companies and securities law. This legislation, which operates as a "code" within each of the six states, includes the following:

a. The Companies Code
b. The Companies (Acquisition of Shares) Code, often termed the "Takeover Code"
c. The Securities Industry Code

111. The following types of companies may be incorporated under the Companies Code:

Type of Company	*Corresponding U.S. Entity*
A company limited by shares—The liability of each shareholder is limited to the share investment and any unpaid amount on those shares.	Corporation
A company limited by guarantee—The liability of each shareholder is limited to the amount pledged as a contribution to the assets of the company in the event of a dissolution. These pledges	Not-for-profit organization

Type of Company	*Corresponding U.S. Entity*
are recorded in the company's memorandum of association.	
A company limited by both shares and guarantee.	Not-for-profit organization
An unlimited company—The liability of shareholders for company debts is unlimited.	Partnership/sole proprietorship
A no-liability company—Shareholders can forfeit their shares without paying any amount called on their unpaid shares. (Only mining companies can elect to be no-liability companies.)	N/A

112. The most common form of business organization is the company limited by shares, referred to simply as a company. Two types of companies exist: the public company and the proprietary (private) company. Public companies whose shares are traded on a stock exchange are referred to as listed companies.

113. A company may be incorporated as a proprietary company provided the articles of its incorporation—

a. Restrict the right to transfer shares.

b. Limit the number of its members to fifty.

c. Prohibit any public offering of shares or debentures.

114. A proprietary company may attain exempt status provided none of its shares is held by a public company. As previously mentioned, an exempt proprietary company can elect not to appoint an auditor and has reduced reporting and disclosure requirements.

115. Although a company incorporates in one state, it must also register in each state in which it plans to conduct business. A company must maintain a registered office open to the public in its state of incorporation.

116. Companies must have a memorandum of association, which must be submitted by the company's incorporators to the relevant State Corporate Affairs Commission for registration and issuance of a certificate of incorporation.

117. The memorandum of association governs a company's operations. The memorandum must indicate the name of the company, its holdings, the liability of its members, and the amount of share capital authorized. The memorandum of a public company must be signed by at least five persons, and each person must hold at least one share. Proprietary company memorandums are required to have only two signatures.

118. The principal controlling body of the company is the board of directors, which is appointed by shareholders. A public company must have at least three directors, two of whom are residents of Australia. A proprietary company must have at least two directors, one of which is a resident of Australia. All companies must have at least one secretary who resides in the state of incorporation.

119. Directors assume significant responsibilities under the Companies Code. Breach of duty by a director is a serious offense, punishable by fine or imprisonment. In addition, a director may be ordered to pay compensation to the corporation and its shareholders. Duties of a director include, but are not limited to, honesty, reasonable care and diligence, and proper use of information and position.

120. If a company issues shares at an amount greater than their par or nominal value, an account must be established equal to the value of the premium on those shares, called the "share premium account." In the case of the redemption of preference shares, there is a requirement to establish a reserve equivalent to the nominal value of the shares to be redeemed.

121. Until recently, a company could not acquire its own shares or, except in certain limited circumstances, give financial assistance for the purpose of acquiring its own shares. On November 1, 1989, the Companies Code was amended to allow a company to purchase its own shares. Share buybacks are subject to stringent conditions.

122. Shares bought back by a company must be canceled; there is no provision for holding "treasury stock." For a company to avail itself of the new provisions, its articles of association must contain an appropriate authorization, which must be renewed every three years by special resolution.

123. Only ordinary shares can be bought back and then only in the case of "buyback schemes" (from all shareholders of a class of ordinary shares), "employee-shares purchases" (in accordance with an employee share scheme), "odd-lot purchases by listed bodies" (purchases of unmarketable shares), and "selective buybacks" (those from particular shareholders and not falling within the other categories).

124. In addition to the foregoing there are a number of other conditions that must be met. These include solvency declarations by directors, auditor's reports on solvency declarations (except proprietary companies for which the buyback will not result in more than 10 percent of shares being acquired in the past twelve months), and advertisements in the case of "buyback schemes" and a "selective buyback."

125. Specific provisions apply to each type of buyback, some of which vary according to whether the company is a public company or a proprietary company. Proprietary companies are permitted to purchase more than 10 percent of their shares in a twelve-month period under a buyback scheme, provided approval is given by an ordinary resolution of the shareholders. Selective buybacks by public companies of more than 10 percent of their shares in a twelve-month period require approval by special resolution of 75 percent of voting members and members holding at least 75 percent of shares.

126. Other features of the new legislation include a provision for noncompulsory compliance certificates to accompany an offer (signed by two company officers stating that the relevant legislation has been complied with) and wide powers granted the NCSC to declare a buyback to be part of an unacceptable self-acquisition scheme.

Branches of a Foreign Company

127. Before a foreign company can establish a branch in Australia, it must register in the state or territory in which it plans to conduct business.

128. Each year a foreign company must file a certified copy of its annual balance sheet and profit-and-loss account with the State Corporate Affairs Commission. Any document the company is required to prepare for its own country must also be filed.

Partnership Entities

129. Partnerships are defined as associations between two or more parties conducting business in common with the objective of sharing profits and losses. Laws relating to the formation and registration of partnership entities are found in the various state Acts of Parliament. Although a written partnership agreement is common practice, it is not required. In such a situation the provisions of the State Partnership Acts would govern.

130. Joint ventures, either incorporated or unincorporated, are common business vehicles in the area of mining exploration and extraction, as well as property development. The joint venture agreement defines the participant's proportionate share in venture assets, liabilities, and results.

Other Forms of Business Organization

131. Trusts may be public (for a specific purpose or charity) or private (for the benefit of private individuals) and may be formed as either discretionary (if the beneficiaries' entitlement is at the discretion of the trustee) or unit (fixed) trusts (if the beneficiaries' interest is fixed by shares or units). Unit trusts are often used for public investments in the form of property trusts or cash management trusts.

Foreign Investment

132. Under Australian government policy, foreign companies that wish to invest in or establish an Australian business must also comply with the rules of the Foreign Investment Review Board.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON THE STOCK EXCHANGES

Registration Requirements for Public Sale

133. Any company intending to register securities (for example, shares or debentures) for a public sale must issue a prospectus that complies with the rules contained in the Companies Code. The prospectus must not be misleading and must disclose certain specific information such as the amount of net tangible assets for each class of stock, the basis and date of any valuation of assets given and by whom the valuation was made, and a report by an auditor called "the investigating accountant's report." Any report contained in the prospectus may not be abridged. The qualifications of the person issuing the report must be stated, and all reports must be dated less than one month prior to the registration date of the prospectus.

Requirements for Listing Securities on the Stock Exchanges

134. Companies intending to invite public subscriptions may seek admission to the Australian Stock Exchange (ASX). The prerequisite requirements for listing on the ASX vary according to whether the listing is to be on the main board or on a secondary board. Specific details can be found in the ASX listing rules manual.

Rules for Listed Companies

135. Once listed, companies are required, on an ongoing basis, to keep the ASX notified of matters of significance that have occurred or are contemplated to occur and that might have an effect on its public securities. These matters include, but are not limited to, the following:

- Any information that the company is aware of that, if not disclosed, might establish a false market for its securities or that would materially affect the price of its securities
- Any change in the general character of the business of the company or any related company (listed or unlisted)

- Any substantial acquisition or disposition of fixed assets in another company, investments (including shares) in another company, or both, by a company or its affiliates

136. Periodic reports are required to be filed with the ASX, including semiannual financial statements (consolidated, if applicable), within three months after the end of that period. Preliminary final statements must be filed within three months after the financial year-end.

137. The company's annual report must be filed with the ASX within four months after year-end. The statements are required to be audited, to be in consolidated form, and to include footnotes disclosing certain specific information in addition to the normal statutory requirements. These disclosures include—

- The reason for and amount of any material variation between the preliminary final results and financial statements.
- The maximum contingent liability for termination of benefits under employment agreements with directors, officers, and other managers.
- A statement as of the date of the directors' report indicating the interest of each director in equity or other securities of the company or its affiliates.
- The details of material transactions involving directors.
- A statement made no earlier than six weeks before the issue of the company's annual report disclosing the names of all substantial shareholders, their holdings, the number of holders of each class of shares, and a distribution schedule of each class of equity securities.
- A statement of the percentage of total holdings of the twenty largest shareholders of each class of equity, as well as the names of the shareholders and the number of shares, by class, they hold.

138. Most of the ASX's listing requirements deal with the reporting of specific information and financial data rather than the extension or modification of accounting principles and disclosure.

TAXES

Principal Types

139. Income tax is imposed on all residents of Australia whether they are companies or individuals. The tax applies to worldwide income subject to certain exemptions.

140. Income tax is also imposed on income earned by nonresidents from Australian sources. Nonresident income tax liability is often reduced by provisions of an international double-taxation agreement.

141. Income taxes are calculated with the use of a graduated scale for individuals. Companies and other taxable entities have specific applicable rates.

142. The year-end for taxpayers is generally June 30. Use of a different accounting period is subject to the consent of the Commissioner of Taxation. A different accounting period is generally granted to Australian subsidiaries that request the same accounting year-end as their foreign parent.

143. Public and proprietary companies are taxed at the same rates. The company tax rate for 1989–90 and subsequent years is 39 percent for both resident and nonresident companies.

144. Resident individual tax rates for the 1989–90 tax year are as follows:

1989–90 Tax Rates

1989–90 Taxable Income (A$)	*Tax (A$)*	*Marginal Percentage on Excess (A$)*
0–5,100	—	—
5,101–17,650	—	+ 21% over 5,100
17,651–20,600	2,635.50	+ 29% over 17,650
20,601–35,000	3,491.00	+ 39% over 20,600
35,001–50,000	9,107.00	+ 47% over 35,000
Over 50,000	16,157.00	+ 48% over 50,000

145. The top rate of 48 percent is to be reduced to 47 percent effective July 1, 1990. In addition, resident individuals pay a Medicare Levy (a health care levy) of 1.25 percent of taxable income subject to phasing-in for low-income earners.

146. Nonresident individual rates are the same as resident rates except that the first A$17,650 is taxed at 29 percent. There is no tax-free threshold for nonresidents.

Tax Returns

147. Income taxes are levied only on the federal level; the individual states share in federal tax revenues. All taxpayers required to file tax returns must do so within two months following the tax year-end unless the return is prepared by a registered tax agent, in which case the due date is generally six months after the tax year-end. A tax assessment, based on the submitted returns, is generally issued by the Tax Office within three months of filing the return. Any tax due must be paid within thirty days of the date of assessment. Any payment of tax installments by individuals and companies is credited against the tax liability, and overpayments are refunded.

148. In addition to tax on ordinary income (such as salaries, business profits, interest, rent, and trust distributions), tax is imposed on capital gains arising from assets acquired after September 19, 1985. The taxable gain is generally the profit on sale reduced by an allowance for inflation. This taxable amount is included with ordinary income to determine the tax payable. Individuals, however, receive a concession of tax applicable to a capital gain if their other income is below A$50,000 (A$35,000 after July 1, 1990). Capital losses are calculated without an allowance for inflation and can be carried forward indefinitely.

149. Capital gains on assets acquired before September 20, 1985, may also be subject to tax if the assets were acquired for the purpose of resale at a profit.

150. Foreign-source income derived by residents (whether individuals or companies) is generally taxable. Credits against the Australian tax liability are granted for any foreign tax paid on such income. Special rules apply to dividends received by companies from foreign subsidiaries.

151. The Federal Treasurer has announced that major changes are to apply to the taxing of foreign income after July 1, 1990. The principal changes, in broad terms, are as follows:

a. Income derived in a comparable tax country (generally a country imposing tax at a rate greater than 25 percent) will be exempt from income tax in Australia (unless the tax is reduced under a double tax treaty, as in the case of dividends).

b. Dividends paid by companies located in a comparable tax country will be exempt from Australian tax in the hands of resident company shareholders holding an interest of 10 percent or more.

c. Income derived by an entity that is a controlled foreign corporation (CFC) located in countries other than comparable tax countries will be taxable in the hands of Australian owners in the year the income arises ("accruals taxation") except if the active income exemption applies.

d. A CFC is a company that is controlled by five or fewer residents.

e. The active income exemption applies when "genuine" business income comprises 95 percent or more of the CFC's gross income. Accordingly, resident shareholders of CFCs with passive income (such as royalties, rents, or dividends) of 5 percent or more will be taxable in full in Australia on all of the CFC's income.

f. Dividends paid from CFCs that are subject to the active income exemption will be taxable in Australia.

152. Australia has thin capitalization rules under which the tax deductibility of interest paid by an Australian entity to a foreign controller (or an associate thereof) is limited. In general terms, the limitation is that interest is deductible only to the extent that the total amount of interest-bearing debt owing to a foreign controller (or associate) by the Australian entity, or Australian group, does not exceed three times the foreign controller's (plus associates') equity. A foreign controller is a person or entity who has (or has when aggregated with associates) a direct or indirect interest of 15 percent or more in the Australian entity.

153. Australia also imposes a limitation on the deductibility of interest on certain reorganizations of an Australian company

group if a nonresident has an interest of 50 percent or more in that group.

154. Australia imposes withholding tax on interest and dividends paid to nonresidents. The interest withholding tax is 10 percent. The dividend withholding tax is generally 30 percent but is reduced to 15 percent when the nonresident country has a double tax treaty with Australia.

155. Partnerships, joint ventures, and trusts are generally not subject to tax as entities but are required to file income tax returns in order to determine the distribution taxable in the hands of the partners, beneficiaries, etc. Special exemptions and concessions apply to certain entities (for example, pension [superannuation] funds and life insurance companies).

156. Taxable income for companies is based, in broad terms, on pretax accounting income; however, special adjustment rules apply to the following items:

a. Tax losses carried forward (there are no carrybacks)
b. Tax losses transferred between companies in a wholly owned group
c. Depreciation of plant and buildings (accelerated rates usually apply for tax purposes)
d. Fringe benefits tax expenses on employee benefits (not tax-deductible)
e. Charges to provisions (not tax-deductible)
f. Entertainment expenses (not tax-deductible)
g. Australian film industry investments (special concessions apply)
h. Petroleum and mining operations (special concessions apply)
i. R&D costs (special concessions apply)

157. The following additional taxes are levied by either the Commonwealth of Australia or the individual states:

a. Sales tax
b. Customs and excise tax
c. Payroll tax
d. Land tax

e. Natural resource tax (for example, the tax on mining extractions)

f. Tax on royalties paid to nonresidents

APPENDIX A

Outstanding Auditing Pronouncements

Auditing pronouncements as of December 31, 1989, are as follows:

Statements of Auditing Practice (AUPs)

No.	Title
1	*Bank Confirmation Requests*
2	*Using the Work of an Internal Auditor*
3	*The Auditors' Report on Financial Statements (Including Special Purpose Reports)*
4	*Auditing in an EDP Environment—General Principles*
4.1	*The Effects of an EDP Environment on Study and Evaluation of the Accounting System and Related Internal Controls*
4.2	*Computer-Assisted Audit Techniques (CAATs)*
5	*Existence and Valuation of Inventories in the Context of the Historical Cost System*
6	*Solicitors' (Attorneys') Representation Letters*
7	*Going Concern*
8	*Audit Implications of Events Occurring After Balance Date*
9	*Audit Engagement Letters*
10	*Planning*
11	*Using the Work of Another Auditor*
12	*Study and Evaluation of the Accounting System and Related Internal Controls in Connection With an Audit*
13	*Control of the Quality of Audit Work*
14	*Audit Evidence*
15	*Documentation*
16	*Fraud & Error*
17	*Analytical Review*
18	*Audit Implications of Equity Accounting*

No.	Title
19	*Other Information in Documents Containing Audited Financial Statements*
20	*Audit Evidence Implications of Using a Service Entity*
20.1	*Audit Evidence Implications of Externally Managed Assets and Income of Superannuation Funds*
21	*Audit Implications of Current Cost Accounting*
22	*Using the Work of an Expert*
23	*Resignation, Removal, or Retirement of an Auditor*
24	*Audit Sampling*
25	*Representations by Management*
26	*Related Parties*
27	*Materiality and Audit Risk*
28	*Audit of Accounting Estimates*

Statements of Auditing Standards (AUSs)

No.	Title
1	*Statement of Auditing Standards*

Other Auditing Pronouncements

Auditing Guidance Releases (AUGs)

No.	Title
1	*Purpose and Scope of Releases*
2	*Expression of an Opinion on the Adequacy of Internal Control*
3	*Notification of Amendments to AUP 3*
4	*Audit Implications of Reserve Bank Prudential Reporting Requirements*
5	*Occupational Superannuation Standards Regulations*

APPENDIX B

Outstanding Accounting Pronouncements

The outstanding accounting pronouncements as of December 31, 1989, are listed below:

Australian Accounting Standards (AASs)

No.	Title	Approved by Accounting Standards Review Board (ASRB) No.
–	*Introductory Statement on Applicability of Statements of Accounting Standards to Public Sector Business Undertakings*	
1	*Profit and Loss Statements*	1018
2	*Valuation and Presentation of Inventories in the Context of the Historical Cost System*	1019
3	*Accounting for Company Income Tax (Tax Effect Accounting)*	1020
4	*Depreciation of Non-current Assets*	1021
5	*Materiality in Financial Statements*	–
6	*Accounting Policies: Determination, Application and Disclosure*	1001
7	*Accounting for the Extractive Industries*	1022
8	*Events Occurring After Balance Date*	1002
9	*Expenditure Carried Forward to Subsequent Accounting Periods*	–
10	*Accounting for the Revaluation of Non-current Assets*	1010
11	*Accounting for Construction Contracts*	1009
12	*Statement of Sources and Applications of Funds*	1007*
13	*Accounting for Research and Development Costs*	1011
14	*Equity Method of Accounting*	1016

*Does not apply to exempt proprietary companies.

No.	Title	Approved by Accounting Standards Review Board (ASRB) No.
15	*Disclosure of Operating Revenue*	1004
16	*Financial Reporting by Segments*	1005*
17	*Accounting for Leases*	1008
18	*Accounting for Goodwill*	1013
19	*Accounting for Interests in Joint Ventures*	1006
20	*Foreign Currency Translation*	1012
21	*Accounting for the Acquisition of Assets (Including Business Entities)*	1015
22	*Related Party Disclosures*	1017†
23	*Set-off and Extinguishment of Debt*	1014

Accounting Guidance Releases

No.	Title
1	*Purpose and Scope of Accounting Guidance Releases*
2	*Accounting for a Change in the Rate of Company Income Tax*
3	*Classification of Leases by Lessees and Lessors*
4	*Accounting for Intra-group Transfers of Tax Losses*
5	*Accounting for Intangible Assets*
6	*Accounting for the Fringe Benefits Tax*
7	*Accounting Implications of Dividend Imputation*
8	*Accounting for the Capital Gains Tax*
9	*Accounting for Marketable Securities in the Context of AAS 2 and AAS 10*
10	*Measurement of Monetary Assets and Liabilities*

Statements of Accounting Concepts (SACs)

No.	Title
1	*Objectives of Financial Reporting by Public Sector Entities*

*Applies only to listed companies and to the subsidiaries of overseas listed companies.
†Does not apply to exempt proprietary companies.

Statements of Accounting Practice (SAPs)

No.	Title
1	*Current Cost Accounting*

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following financial statements are intended for illustrative purposes. The statements presented are not intended to include all information that Australian law requires for a large nonexempt company that is both a borrowing and a listed corporation.

To the Members of
TRP (Major) Limited

We have audited the accounts in accordance with Australian Auditing Standards.

In our opinion the accounts of TRP (Major) Limited, and group accounts, are properly drawn up in accordance with the provisions of the Companies (New South Wales) Code and so as to give a true and fair view of:

(i) the state of affairs of the company and of the group as of 31 December 1989 and of the profit of the company and of the group for the year ended on that date, so far as they concern members of the holding company; and

(ii) the other matters required by Section 269 of that Code to be dealt with in the accounts and in the group accounts;

and are in accordance with Australian Accounting Standards and applicable Approved Accounting Standards.

The names of the subsidiaries of which we have not acted as auditors are Totem Enterprises Limited and TRP (International) Limited.

....	*[Firm signature]*
Watchdog & Bloodhound	*[Name of firm]*
....	*[Signature of partner]*
J. Wolf	*[Name of partner]*

City: Sydney — Date: 15 March 1990

STATEMENT BY DIRECTORS

In the opinion of the Directors of TRP (Major) Limited:

(a) the accompanying Profit and Loss Account is drawn up so as to give a true and fair view of the profit of the company for the year ended 31 December 1989.

(b) the accompanying Balance Sheet is drawn up so as to give a true and fair view of the state of affairs of the Company as at that date.

(c) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

(d) the accompanying Group Accounts are drawn up so as to give a true and fair view of the profit of the company and its subsidiaries for the year ended 31 December 1989 and of the state of affairs of the company and its subsidiaries as of the end of the year, so far as they concern members of the company.

The Accounts of the Company and the Group Accounts have been made out in accordance with applicable Approved Accounting Standards.

Signed this 15th day of March, 1990, at Sydney in accordance with a resolution of the Board of Directors.

.... Director
A. B. Red

.... Director
G. H. Green

TRP (MAJOR) LIMITED
AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT

Your directors submit the following report for the financial year ended 31 December 1989, made in accordance with a resolution of the Board of Directors.

Directors

The names and particulars of the directors of TRP (Major) Limited in office at the date of this report are:

Name	*Qualifications, Experience and Any Special Responsibilities*
A. B. Red	(Age 63) Chairman since 1983 and a Director since 1980; Director of ABC Bank Ltd.; Director of PZ Plastics Ltd.; Member of Audit Committee.
E. F. Blue, B.A.	(Age 55) Director since 1981; Managing Director and Chief Executive Officer of TRP (Major) Limited since 1987.
G. H. Green, FASA, CPA, FCIS	(Age 50) Director since 1981 and Finance Director since 1983.
I. J. Yellow, Bsc, BE.	(Age 52) Director since 1980; Engineer.
K. L. Orange, FCA.	(Age 49) Chartered Accountant; Director since 1987; Chairman of Audit Committee.
M. N. Black	(Age 53) Director since 1980; Director of PZ Plastics Ltd.; Director of Products International Inc.; Member of Audit Committee.
O. P. Purple, LL.B.	(Age 41) Solicitor; Director since 1988; Member of Audit Committee.

Interests of Directors in Shares in Group Companies

At the date of this report the following interests were held by directors:

Name	Ordinary A$1.00 Shares in TRP (Major) Limited
A. B. Red	100,000
E. F. Blue	50,000
G. H. Green	10,000
I. J. Yellow	—
K. L. Orange	5,000
M. N. Black	8,000
O. P. Purple	—

Interests of Directors in Contracts With the Company

The following are particulars of an interest in a contract with the company declared by Mr. M. N. Black in accordance with subsection 228(1) of the Companies (New South Wales) Code:

A contract for the purchase by Mr. Black of freehold land from the company situated in Napier, New Zealand, for a cash consideration of A$500,000, being the current market value of the land determined by an independent valuer.

Principal Activities

The principal activities of the corporations in the group in the course of the financial year ended 31 December 1989 were—

1. The manufacture and sale of plastic models.
2. The import, distribution, and installation of equipment used in mining activities.

No significant changes in the nature of the above activities occurred during the financial year.

Consolidated Profit

The net consolidated profit of the group for the financial year ended 31 December 1989 after provision for income tax and after deducting any amounts that should be properly attributable to any person other than a corporation in the group was A$1,376,000.

Dividends

The directors recommend that the following final dividends be paid:

3.50 cents per ordinary share	A$350,000

The following amounts have been paid by way of dividend since the commencement of the financial year:

Ordinary shares:	
2.50 cents per share interim dividend for 1989.	A$250,000
Final dividend for 1988 as recommended by the directors in their 1988 report.	250,000
Redeemable preference shares:	
10% dividend for 1989	100,000
	A$600,000

Review of Operations

Following the reorganization of the group's activities in 1987, the plastic models and mining equipment divisions continued to expand their market shares in both the Australian and Southeast Asian markets.

Results of Operations

The plastic models division contributed A$2,081,000 to the operating profit before tax, an increase of 61 percent over the previous year. The mining equipment division contributed A$3,550,000, an increase of 71 percent over the previous year.

Significant Changes in the State of Affairs

The following significant changes in the state of affairs of the group occurred during the financial year:

The issue of 600,000 ordinary shares in TRP (Major) Limited at a premium of A$1.00 per share to acquire a 60 percent interest in Totem Enterprises Limited.

The raising of A$1,500,000 through the issue of 15 percent debentures repayable in 1996 to assist in the funding of new plant and equipment.

A settlement of the long-standing redundancy claim relating to the closedown of the paper mill in 1985 for a negotiated cash payment of A$944,000.

The sale of patents, rights, and freehold land surplus to group requirements for A$3,423,000.

Significant After-Balance-Date Events

The group's 32 percent interest in its associated company Condamine Pty. Limited has been sold for a cash consideration of A$1,562,000.

Apart from the above no matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group, in subsequent financial years.

Likely Future Developments and Expected Results

It is expected that the group will continue to expand its operations both in Australia and Southeast Asia through its agency networks. The investments made during the past year in upgrading the manufacturing plant will provide the capacity necessary to take advantage of an expanding market.

Further information regarding likely developments in the operations of the group and the expected results of those operations in financial years subsequent to the financial year have not been included in this report because, in the opinion of your directors, its disclosure would prejudice the interests of the group.

Share Options

Options granted by TRP (Major) Limited during the financial year comprise options to all holders of ordinary shares to acquire ordinary shares in the company at A$3.00 per share in the ratio of one option for every ten ordinary shares held.

The options expire on 30 June 1995 and are exercisable at any time on or before that date.

Options to acquire a total of 1,000,000 ordinary shares were issued.

No person entitled to exercise these options had or has any right, by virtue of the options, to participate in any share issue of any other corporation.

No shares have been issued by virtue of the exercise of the options, and at the date of this report there are 1,000,000 unissued ordinary shares in respect of which options are outstanding.

Directors' Benefits

Since the end of the previous financial year no director of the company has received, or become entitled to receive, a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the group accounts) by reason of a contract made by the director or by a related corporation with the director or with a firm of which he or she is a member, or with a company in which he or she has a substantial interest with the exception of any benefit that may be deemed to accrue to Mr. O. P. Purple by reason of professional fees paid in the ordinary course of business to the legal firm in which he is a member.

Rounding-off of Amounts to the Nearest Thousand Dollars

The company is of the kind referred to in Companies (New South Wales) Regulation 58(6) and in accordance with Section 271 of the Companies (New South Wales) Code amounts in the financial statements have been rounded off to the nearest thousand dollars unless specifically stated to be otherwise.

Signed for and on behalf of the Directors.

.... Director
A. B. Red

.... Director
G. H. Green

Sydney, 15 March 1990.

TRP (MAJOR) LIMITED AND SUBSIDIARY COMPANIES
PROFIT AND LOSS ACCOUNTS
For the Year Ended December 31, 1989

		Consolidated		*Holding Company*	
	Notes	*1989 (A$000)*	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Operating profit before abnormal items and income tax	3,4	1,995	1,410	295	712
Abnormal items before income tax	5	1,072	(166)	583	163
Operating profit before income tax		3,067	1,244	878	875
Income tax attributable to operating profit	6	825	256	328	225
Operating profit after income tax		2,242	988	550	650
Loss on extraordinary items	7	944	—	—	—
Income tax attributable to loss on extraordinary items	6,7	368	—	—	—
Loss on extraordinary items after income tax	7	576	—	—	—
Operating profit and extraordinary items after income tax		1,666	988	550	650
Minority interests in operating profit and extraordinary items after income tax		290	201	—	—

		Consolidated		*Holding Company*	
	Notes	*1989 (A$000)*	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Operating profit and extraordinary items after income tax attributable to members of the holding company		1,376	787	550	650
Retained profits at the beginning of the financial year		1,437	973	250	100
Loss from change in accounting method	8	—	(48)	—	—
		2,813	1,712	800	750
Aggregate of amounts transferred from reserves	9	202	225	—	—
Total available for appropriation		3,015	1,937	800	750
Dividends provided for or paid		700	500	700	500
Aggregate of amounts transferred to reserves	9	600	—	—	—
		1,300	500	700	500
Retained profits at the end of the financial year		1,715	1,437	100	250

The above profit and loss accounts are to be read in conjunction with the attached notes.

TRP (MAJOR) LIMITED AND SUBSIDIARY COMPANIES
BALANCE SHEETS
As of December 31, 1989

		Consolidated		*Holding Company*	
	Notes	*1989 (A$000)*	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Current assets					
Cash		120	120	25	15
Receivables	10	3,946	2,400	421	365
Investments	11	54	—	54	—
Inventories	12	8,376	6,760	1,985	1,724
Other	13	100	80	15	20
Total current assets		12,596	9,360	2,500	2,124
Noncurrent assets					
Receivables	14	248	298	503	198
Investments	15	3,365	2,956	3,124	1,904
Inventories	16	590	420	—	—
Property, plant, and equipment	17	18,139	14,012	11,730	11,565
Intangibles	18	1,455	744	—	20
Other	19	135	146	19	8
Total noncurrent assets		23,932	18,576	15,376	13,695
Total assets		36,528	27,936	17,876	15,819
Current liabilities					
Creditors and borrowings	20	2,833	2,529	324	844
Provisions	21	1,034	709	710	519
Total current liabilities		3,867	3,238	1,034	1,363

		Consolidated		Holding Company	
	Notes	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Noncurrent liabilities					
Creditors and borrowings	22	7,282	5,792	1,573	1,533
Provisions	23	2,222	1,745	569	351
Total noncurrent liabilities		9,504	7,537	2,142	1,884
Total liabilities		13,371	10,775	3,176	3,247
Net assets		23,157	17,161	14,700	12,572
Shareholders' equity					
Share capital	24	11,000	10,400	11,000	10,400
Reserves	9	9,134	5,058	3,600	1,922
Retained profits		1,715	1,437	100	250
Shareholders' equity attributable to members of the holding company		21,849	16,895	14,700	12,572
Minority shareholders' interest in subsidiaries		1,308	266	—	—
Total shareholders' equity		23,157	17,161	14,700	12,572

The above balance sheets are to be read in conjunction with the attached notes.

TRP (MAJOR) LIMITED AND SUBSIDIARY COMPANIES
NOTES TO AND FORMING PART OF THE ACCOUNTS
For the Year Ended December 31, 1989

1. Summary of Significant Accounting Policies

The principal accounting policies adopted by TRP (Major) Limited and its subsidiaries are stated in order to assist in a general understanding of the financial statements. These policies have been consistently applied except as otherwise indicated.

The financial statements have been drawn up in accordance with Schedule 7 of the Companies (New South Wales) Code, applicable Australian Accounting Standards, and applicable Approved Accounting Standards.

Basis of Accounting and Principles of Consolidation

The financial statements have been prepared on the historical cost basis and except where stated do not take into account current valuations of noncurrent assets.

The consolidated financial statements include the accounts of TRP (Major) Limited and all its subsidiary companies.

All intercompany accounts and transactions have been eliminated. Where a subsidiary company is acquired or sold during the year, its results are included in consolidated profit and loss from the date of acquisition or up to the date of disposal.

Investments

Shares in listed and nonlisted companies and other investments are stated at cost or directors' valuation made on the basis of fair values of net assets.

Shares in associated companies (that is, those companies over which the group exercises significant influence) are stated at cost.

Depreciation and Amortization of Property, Plant, and Equipment

Items of property, plant, and equipment other than freehold land are depreciated over their estimated useful lives using the straight line method.

The useful lives of certain items of specialized plant used in the manufacture of plastic models were reassessed during the year and found to be longer than those previously used for depreciation purposes. The balances of the related provisions for depreciation at 1 January 1989 have accordingly been reduced by A$279,000, and this amount has been credited to operating profit. Following this reassessment the 1989 depreciation charge for plant and equipment was reduced by A$56,000.

Buildings have been revalued on the basis of estimated current market values. The balances of provisions for depreciation existing at the time of revaluation have been credited to the asset accounts and the net amounts restated to revalued amounts. Future depreciation charges will be based on the revalued amounts.

Leasehold improvements are amortized over the period of the lease.

Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases, under which the lessor effectively retains substantially all the risks and benefits. When assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortized on a straight-line basis over the expected economic life. A corresponding liability is also established, and each lease payment is allocated between such liability and interest expense. Operating lease payments are charged to expense in the periods in which they are incurred.

Income Tax

Income tax has been brought to account using a method of tax effect accounting whereby income tax expense for the period is calculated on the accounting profit after adjusting for items that, as a result of their treatment under income tax legislation, create permanent differences between that profit and the taxable income. The tax effect of timing differences that arises from the recognition in the accounts of items of revenue and expenses in periods different from those in which they are assessable or allowable for income tax purposes is represented in the balance sheet as "future income tax benefits" or "provision for deferred income tax," as the case may be at current tax rates. A future income tax benefit is only carried forward as an asset if realization of the benefit can be regarded as being assured beyond reasonable doubt.

Translation of Foreign Currency Transactions

Transactions in foreign currencies are initially measured and brought to account at the rate of exchange in effect at the date of each transaction.

Foreign currency monetary items outstanding at the balance date have been translated at the spot rate current at balance date.

Exchange differences relating to monetary items have been brought to account in the profit and loss account in the financial year in which the exchange rates change as exchange gains or losses, except for differences relating to the plant under construction and hedge transactions.

Exchange differences arising with respect to certain items of the plant under construction have been included in the cost of acquisition.

Exchange differences on hedge transactions undertaken to hedge foreign currency exposure are, except for those related to hedge transactions intended to hedge the purchase or sale of goods or services, brought to account in the profit and loss account in the financial year in which the exchange rates change. Any costs or gains arising at the time of entering into hedge transactions are accounted for separately from the exchange differences on the hedge transactions and, unless the hedge relates to the purchase or sale of goods or services, are brought to account in the profit and loss account over the lives of the hedge transactions.

Costs or gains arising at the time of entering into hedge transactions intended to hedge the purchase or sale of goods or services, together with exchange differences up to the date of purchase or sale, are deferred and included in the measurement of the purchase or sale.

The financial statements of foreign operations that are all self-sustaining have been translated to Australian dollars using the current rate method whereby—

a. Assets and liabilities are translated at the exchange rate current at balance date.
b. Owner's equity at the date of investment, including share capital at acquisition and pre-acquisition reserves, is translated at the exchange rate current at that date.
c. Postacquisition movements in owner's equity, other than retained profits/accumulated losses, are translated at the exchange rates current at the dates of those movements, except that where a movement represents a transfer between items within owner's equity, the movement is translated at the exchange rate current at the date that the amount transferred was first included in owner's equity.
d. Dividends distributed from retained profits are translated at the exchange rates current at the dates when the distributions were declared.
e. Postacquisition movements in retained profits/accumulated losses arising through transfers from the profit and loss account and all revenue and expense items are translated at the exchange rates current at the transaction date.

Any exchange differences arising through use of the current rate method are taken directly to the foreign currency translation reserve.

Inventories

Finished goods, raw materials, and work in progress are valued at the lower of cost and net realizable value. Costs have been assigned to inventory quantities on hand at balance date using the first in, first out (FIFO) basis.

Cost comprises material, labor, subcontract charges and direct contract expenses, and an appropriate proportion of fixed and variable overhead.

Construction contract work in progress consists of direct labor and materials, depreciation of plant and equipment used on contracts, project overhead, plus profits recognized less provision for foreseeable losses.

The profit on construction contracts is determined in proportion to the progress on each contract (the percentage-of-completion method) measured by reference to physical estimates by engineers of the work performed to date.

Intangible Assets

Patents, trademarks, and licenses are amortized over the periods of time it is estimated benefits will be derived from their use in operations.

Goodwill represents the excess of the cost of acquisition over the fair values of the net assets acquired. It is amortized over twenty years.

Land Held for Resale and Plant Under Construction

Interest on money borrowed specifically to finance land held for resale and plant under construction is capitalized up to the date of completion of each asset.

Deferred Expenditure

Items of expenditure having a benefit or relationship to more than one accounting period are amortized over the periods to which they relate.

Deferred research and development costs are amortized over the expected life of each product commencing from the date of commercial production.

Employee Entitlements

The amount expected to be paid to employees for their pro rata entitlements for long service, annual leave, and sick leave is accrued annually at current wage rates.

Service Warranties

Provision is made for the estimated liability on all products still under warranty at balance date.

Related Parties

Where the term *related parties* is used in the financial statements, it refers to—

- Entities that, at any time during the year, exercised control or significant influence over the group or were subject to control or significant influence by the group. This includes associated companies and the holding company's parent entity.
- Entities that are controlled by the company's parent entity.
- Investors in the group who have significant influence.
- Directors.
- Spouses and other close members of the families of directors.
- Individuals or close members of the families of such individuals who have significant influence or control over the group through holding an ownership interest.

2. Events Subsequent to Balance Date

After balance date the group's 32 percent interest in its associated company Condamine Pty. Limited has been sold for a cash consideration of A$1,562,000. The resulting net profit (group A$542,000; equity accounts A$146,000) will be brought to account in the 31 December 1990 financial statements.

3. Operating Revenue

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Sales revenue	59,100	49,600	10,921	9,105
Other revenue:				
Interest	109	27	53	62
Dividends	141	148	280	270
Proceeds from disposals of—				
Freehold land	2,820	—	1,600	—
Plant and equipment	497	116	105	80
Patent rights	603	—	603	—
Investments	293	1,375	—	1,375
	4,463	1,666	2,641	1,787
Total operating revenue	63,563	51,266	13,562	10,892

4. Operating Profit

Operating profit before income tax has been determined after—

a. Crediting as revenue:

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Dividends:				
Related corporations	—	—	247	200
Others	141	148	33	70
Total dividend revenue	141	148	280	270
Dividends from related parties included in total dividend revenue:				
Associated companies	137	106	29	18
Interest:				
Related corporations	—	—	40	50
Others	109	27	13	12
Total interest revenue	109	27	53	62

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Interest from related parties included in total interest revenue:				
Associated companies	8	7	8	7
Non-wholly owned subsidiaries	—	—	25	5
Profits from sales of noncurrent assets:				
Plant and equipment	25	9	5	2
Material transfers from provisions:				
Service warranties	50	—	—	—
b. Charging as expense:				
Interest:				
Related corporations	—	—	193	207
Others	1,235	998	337	293
Total interest expense	1,235	998	530	500
Interest paid or payable to related parties (including interest capitalized: 1989, A$19,000 (1988, A$14,000)):				
Controlling business entity	187	187	85	59
Entities subject to common control	19	14	—	—
Bad and doubtful debts:				
Trade debtors—current	132	24	10	15
Other nontrade debtors (noncurrent)	100	—	—	—
	232	24	10	15
Diminution in value of investments:				
Unlisted shares in other corporations	111	100	111	100
Diminution in value of inventories:				
Raw materials and stores	24	30	—	—
Work in progress	46	20	—	—
	70	50	—	—

(cont.)

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Depreciation and amortization of property, plant, and equipment:				
Buildings	160	120	110	80
Leasehold improvements	265	265	265	265
Plant and equipment	718	599	249	430
Leased assets	53	53	—	—
	1,196	1,037	624	775
Amortization of intangibles:				
Patents, trademarks, and licenses	94	100	—	—
Goodwill	9	5	—	—
	103	105	—	—
Net foreign currency exchange loss:				
Ordinary operations	147	156	10	6
Speculative dealing (gain)	—	(5)	—	—
	147	151	10	6
Research and development costs:				
Costs charged in period	125	104	—	—
Amortization of deferred research and development costs	52	46	—	—
	177	150	—	—
Material transfers to provisions:				
Employee entitlements	601	298	160	130
Lease finance charges	101	90	—	—
Operating lease rental expense	329	280	164	130

5. Abnormal Items

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Gain (Loss):				
Depreciation adjustment on reassessment of useful life of plant:	279	—	—	—
Income tax applicable	(109)	—	—	—
	170	—	—	—

	Consolidated		Holding Company	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Write-down of construction work in progress:	—	(329)	—	—
Income tax applicable	—	151	—	—
	—	(178)	—	—
Profit on sale of patent rights:	583	—	583	—
Income tax applicable	(227)	—	(227)	—
	356	—	356	—
Profit on sale of investments (no income tax applicable)	10	163	—	163
Profit on sale of freehold land (no income tax applicable)	200	—	—	—
Aggregate before income tax	1,072	(166)	583	163

6. Income Tax

The amount provided in respect of income tax differs from the amount prima facie payable on operating profit and extraordinary items. The difference is reconciled as follows:

	Consolidated		Holding Company	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Prima facie tax on operating profit—calculated at: 1989, 39% (1988, 49%)	1,196	610	342	429
Deduct tax effect of—				
Overseas tax rate differential	282	154	—	—
Rebatable dividends	88	73	109	133
Research and development concessions	14	9	—	—
Capital profits	92	84	2	80
Adjustment to provision for deferred income tax due to change from 49% to 39% in tax rate	—	136	—	39
Exempt income	39	25	11	25
Other items	9	11	—	11
Overprovision of tax in previous years	—	53	—	53
	524	545	122	341

(cont.)

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Add tax effect of—				
Amortization of—				
Goodwill	4	2	—	—
Leasehold improvements	103	130	103	130
Patents and trademarks	37	49	—	2
Building depreciation not allowable	9	6	5	3
Adjustment to future income tax benefit due to change from 49% to 39% in tax rate	—	4	—	2
	153	191	108	137
Income tax attributable to operating profit	825	256	328	225
Income tax attributable to extraordinary items—1989, 39% (1988, 49%)	(368)	—	—	—
Aggregate income tax attributable to operating profit and extraordinary items	457	256	328	225
Comprises—				
Additions (deductions) to—				
Provision for income tax	335	196	241	164
Provision for deferred income tax	140	70	98	65
Deductions (additions) to—				
Future income tax benefit	(18)	(10)	(11)	(4)
	457	256	328	225

7. Extraordinary Item

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Settlement of redundancy claim relating to closedown of paper mill in 1985	944	—	—	—
Income tax applicable	(368)	—	—	—
	576	—	—	—

8. Loss From Change in Accounting Method

	Consolidated		Holding Company	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Deferred foreign exchange currency losses taken to retained profits on adoption of accounting standard AAS 20	—	48	—	—

9. Reserves

	Consolidated		Holding Company	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Share premium account	600	—	600	—
Capital redemption	1,000	1,000	1,000	1,000
Asset revaluation	5,083	1,850	1,600	522
General	2,000	1,400	400	400
Foreign currency translation	451	808	—	—
	9,134	5,058	3,600	1,922

Movements in reserves:

Share premium account:				
Balance at beginning of year	—	—	—	—
Issue of 600,000 ordinary shares at premium of A$1 per share	600	—	—	—
Balance at end of year	600	—	—	—
Asset revaluation reserve:				
Balance at beginning of year	1,850	975	522	222
Transfer to retained earnings on disposals of revalued assets	(202)	(225)	—	—
Revaluations of noncurrent assets:				
Freehold land	1,973	996	1,018	300
Buildings	200	104	60	—
Investment in business undertaking	500	—	—	—
Patents, trademarks, and licenses	762	—	—	—
Balance at end of year	5,083	1,850	1,600	522

(cont.)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
General reserve:				
Balance at beginning of year	1,400	1,400	400	400
Transfer from retained earnings	600	—	—	—
Balance at end of year	2,000	1,400	400	400
Foreign currency translation reserve:				
Balance at beginning of year	808	1,001		
Transfer from (to) profit and loss	24	(13)		
Exchange differences arising from the translation of the net assets of self-sustaining foreign operations	(381)	(180)		
Balance at end of year	451	808		

10. Receivables (Current)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Trade debtors	3,964	2,483	216	315
Provision for doubtful debts	320	198	15	15
	3,644	2,285	201	300
Bills of exchange and promissory notes:				
Endorsed by bank	150	100	—	—
Other	50	—	—	—
	200	100	—	—
Nontrade debts receivable from—				
Related corporations	—	—	201	60
Others	102	15	19	5
	102	15	220	65
	3,946	2,400	421	365
Included in the above are amounts receivable from the following related parties:				
Associated companies (including trade debts receivable)	152	24	—	—
Non-wholly owned subsidiaries	—	—	95	40
Other related parties	90	10	8	5

11. Investments (Current)

	Consolidated		Holding Company	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Shares, at cost, listed on a prescribed stock exchange	54	—	54	—
Market values	63	—	63	—

12. Inventories (Current)

	Consolidated		Holding Company	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Raw materials and stores:				
At cost	1,486	1,982	—	—
Provision for diminution in value	124	100	—	—
	1,362	1,882	—	—
Work in progress:				
Factory—at cost	2,428	1,920	—	—
Provision for diminution in value	128	20	—	—
	2,300	1,900	—	—
Finished goods:				
At cost	4,464	2,978	1,735	1,724
At net realizable value	250	—	250	—
	4,714	2,978	1,985	1,724
	8,376	6,760	1,985	1,724

13. Other Current Assets

	Consolidated		Holding Company	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Short-term deposits	50	50	—	—
Prepayments	50	30	15	20
	100	80	15	20

14. Receivables (Noncurrent)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Nontrade debts receivable from:				
Related corporations	—	—	478	198
Others	175	208	25	—
Provision for doubtful debts	100	—	—	—
	75	208	25	—
	75	208	503	198
Rights of indemnity for liabilities incurred on behalf of the Seal Trust	173	90	—	—
	248	298	503	198
Included in the above are amounts receivable from the following related parties:				
Non-wholly owned subsidiaries	—	—	205	101
Associated companies	25	—	25	—

15. Investments (Noncurrent)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Government and semi-government stocks and bonds:				
Unlisted—at cost	180	65	80	60
Debentures:				
Listed—at cost	253	160	60	60
Unlisted—at cost	10	10	10	10
	263	170	70	70
Shares:				
Listed shares—at cost:				
In related corporations	—	—	342	342
In other corporations	795	700	136	50
	795	700	478	392

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Unlisted shares—at cost:				
In related corporations	—	—	2,129	929
In other corporations	1,280	1,563	595	595
Provision for diminution in value	253	142	253	142
	1,027	1,421	342	453
	1,027	1,421	2,471	1,382
Total investment in shares	1,822	2,121	2,949	1,774
Options in respect of shares—at cost:				
Listed:				
In related corporations	—	—	25	—
In other corporations	100	100	—	—
	100	100	25	—
Interests in business undertakings:				
A directors' valuation made in 1989 by directors in office at the time on the basis of fair values of net assets	1,000	500	—	—
Total noncurrent investments	3,365	2,956	3,124	1,904

The 1989 revaluation of an interest in a business undertaking was not made in accordance with a policy of regular revaluation.

The revaluation takes no account of potential capital gains tax. If the investment had been sold at balance date at its revalued amount, capital gains tax of A$200,000 would have been payable.

16. Inventories (Noncurrent)

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Raw materials and stores—at cost	110	50	—	—
Construction work in progress	870	634	—	—

(cont.)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Less: progress billings (including retention allowances)	680	500	—	—
	190	134	—	—
Land held for resale:				
Cost of land acquisition	174	174	—	—
Capitalized development expenses	52	38	—	—
Capitalized rates, taxes, and interest	64	24	—	—
	290	236	—	—
	590	420	—	—
Aggregate of cash received and receivable as progress billings (including retention allowances) and advances on account of construction work in progress	421	325	—	—

17. Property, Plant, and Equipment

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Freehold land:				
At director's valuation	2,003	1,800	2,003	1,800
At independent valuation	2,370	2,720	1,215	2,000
	4,373	4,520	3,218	3,800
Buildings:				
At director's valuation	2,240	3,000	2,240	3,000
At independent valuation	3,400	5,000	1,210	1,800
	5,640	8,000	3,450	4,800
Provision for depreciation of buildings:				
At director's valuation	—	1,000	—	1,000
At independent valuation	—	2,000	—	900
	—	3,000	—	1,900

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Net carrying amount of freehold land and buildings:				
At director's valuation	4,243	3,800	4,243	3,800
At independent valuation	5,770	5,720	2,425	2,900
	10,013	9,520	6,668	6,700
Leasehold improvements:				
At cost	1,685	1,646	1,685	1,646
Provision for amortization	1,092	827	1,092	827
	593	819	593	819
Plant and equipment:				
At cost	13,738	9,877	9,774	9,150
Under finance lease	1,327	707	—	—
	15,065	10,584	9,774	9,150
Provisions for depreciation and amortization of plant and equipment:				
At cost	6,989	6,421	5,305	5,104
Under finance lease	543	490	—	—
	7,532	6,911	5,305	5,104
Net carrying amount of plant and equipment:				
At cost	6,749	3,456	4,469	4,046
Under finance lease	784	217	—	—
	7,533	3,673	4,469	4,046
Total property, plant, and equipment	26,763	24,750	18,127	19,396
Provision for depreciation and amortization	8,624	10,738	6,397	7,831
	18,139	14,012	11,730	11,565

Director's valuations of freehold land and buildings were made in 1989 on the basis of estimated current market values by Mr. E. F. Blue.

Independent valuations of freehold land and buildings were made in 1989 on the basis of estimated current market values by Mr. John Doe.

The 1988 Consolidated and Holding Company amounts represent director's and independent valuations made in 1980.

The revaluations take no account of potential capital gains tax and were not made in accordance with a policy of regular revaluation.

The useful lives of certain items of specialized plant used in the manufacture of plastic models were reassessed during the year.

18. Intangibles

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Patents, trademarks, and licenses:				
At director's valuation	1,332	—	—	—
At cost	—	940	—	20
	1,332	940	—	20
Provision for amortization of patents, trademarks, and licenses:				
At director's valuation	—	—	—	—
At cost	—	256	—	—
	—	256	—	—
Net carrying amount of patents, trademarks, and licenses:				
At director's valuation	1,332	—	—	—
At cost	—	684	—	20
	1,332	684	—	20
Goodwill—at cost:	172	100	—	—
Provision for amortization	49	40	—	—
	123	60	—	—
	1,455	744	—	20

Director's valuations of patents, trademarks, and licenses were made in 1989 on the basis of present values of net future cash flows obtainable from their use in the business. The revaluations take no account of potential capital gains tax. The valuations were made by Mr. G. H. Green.

The revaluations have not been made in accordance with a policy of regular revaluation.

19. Other Noncurrent Assets

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Deferred research and development costs:				
Opening balance	260	230	—	—
Add: incurred during year and deferred	23	30	—	—
	283	260	—	—

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Less: accumulated amortization	182	130	—	—
	101	130	—	—
Future income tax benefit	34	16	19	8
	135	146	19	8

20. Creditors and Borrowings (Current)

	Consolidated		Holding Company	
	1989 (A$000)	1988 (A$000)	1989 (A$000)	1988 (A$000)
Bank overdrafts	52	10	—	—
Bank loans	200	100	—	—
Bills of exchange and promissory notes	150	100	10	48
Trade creditors	1,895	1,909	156	405
Lease liabilities	92	65	—	—
	2,389	2,184	166	453
Other loans:				
Related corporations	—	—	48	224
Others	324	250	10	10
	324	250	58	234
Other creditors:				
Related corporations	—	—	85	105
Others	120	95	15	52
	120	95	100	157
	2,833	2,529	324	844
Included in the above are amounts payable to the following related parties:				
Associated companies (including trade debts payable)	285	190	—	—
Non-wholly owned subsidiaries	—	—	123	89
Directors	5	10	5	10
Other related parties	152	118	42	39
Secured creditors and borrowings:				
First mortgage over freehold land and buildings:				
Bank overdrafts	52	10	—	—
Bank loans	200	100	—	—

21. Provisions (Current)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Dividends	350	250	350	250
Taxation	365	236	245	184
Employee entitlements	196	105	115	85
Service warranties	123	118	—	—
	1,034	709	710	519

22. Creditors and Borrowings (Noncurrent)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Bank loans	2,500	2,600	—	—
Debentures	2,500	1,000	1,000	1,000
Other loans:				
Related corporations	—	—	58	178
Others	1,340	1,567	515	355
	1,340	1,567	573	533
Lease liabilities	942	625	—	—
	7,282	5,792	1,573	1,533
Included in the above are amounts payable to the following related parties:				
Controlling business entity	1,100	1,100	500	350
Entities subject to common control	40	39	10	12
Secured creditors and borrowings:				
First mortgage over freehold land and buildings:				
Bank loans	2,500	2,600	—	—
Charge over all assets:				
Debentures	2,500	1,000	1,000	1,000

23. Provisions (Noncurrent)

	Consolidated		*Holding Company*	
	1989 (A$000)	*1988 (A$000)*	*1989 (A$000)*	*1988 (A$000)*
Employee entitlements	1,237	800	321	201
Service warranties	100	200	—	—
Provision for deferred income tax	885	745	248	150
	2,222	1,745	569	351

24. Share Capital

	1989 (A$000)	*1988 (A$000)*
Holding company–TRP (Major) Limited		
Authorized:		
Ordinary shares:		
15,000,000 ordinary shares of A$1 each	15,000	15,000
Preference shares:		
1,000,000 10% preference shares of A$1 each	1,000	1,000
	16,000	16,000
Issued:		
Ordinary shares:		
10,000,000 ordinary shares of A$1 each fully paid	10,000	9,400
Preference shares:		
1,000,000 10% preference shares of A$1 each fully paid	1,000	1,000
	11,000	10,400

Preference shares are cumulative and nonparticipating. They are redeemable at a premium of A$1 per share on 30 June 1995, being the earliest date on which the company has power to redeem.

Unissued shares with respect to which options are outstanding: 1,000,000 ordinary shares.

Terms of issue: options exercisable at A$3 per share. Options expire on 30 June 1995.

Shares issued during period: 600,000 ordinary shares, issued at a premium of A$1 per share to acquire a 60 percent interest in Totem Enterprises Limited.

	1989 (A$000)	1988 (A$000)
Shareholdings of minority interests in subsidiaries:		
TRP (International) Limited		
Ordinary shares:		
90,000 ordinary shares of A$1 each	90	90
Totem Enterprises Limited		
Ordinary shares		
100,000 ordinary shares of A$1 each	100	—

25. Sources and Applications of Funds

	Consolidated	
	1989 (A$000)	1988 (A$000)
SOURCES OF FUNDS		
Funds from operations (1):		
Inflows of funds from operations	63,563	51,266
Outflows of funds from operations	55,303	47,098
	8,260	4,168
Reduction in assets:		
Current assets:		
Inventories of raw materials and stores	520	20
Noncurrent assets:		
Nontrade debts receivable	133	5
Increase in liabilities:		
Current liabilities (2):		
Bank overdrafts	42	10
Bank loans	100	—
Bills of exchange and promissory notes	50	30
Trade creditors	—	126
Lease liabilities	27	25
Other loans	74	50
Other creditors	25	—
	318	241
Noncurrent liabilities:		
Bank loans	—	500
Debentures	1,500	—
Lease liabilities	317	124
	1,817	624

	Consolidated 1989 (A$000)	Consolidated 1988 (A$000)
Proceeds from:		
Share issue to acquire subsidiary (2)	1,200	—
Minority interest in subsidiary acquired (2)	752	—
	13,000	5,058
APPLICATIONS OF FUNDS		
Increase in assets (2):		
Current assets:		
Trade debtors	1,359	603
Bills of exchange and promissory notes	100	—
Non-trade debts receivable	87	15
Investments in listed shares	54	—
Inventories:		
Work in progress	400	100
Finished goods	1,736	326
Other current assets	20	10
	3,756	1,054
Noncurrent assets:		
Right of indemnity for liabilities incurred on behalf of trust	83	24
Investments:		
Unlisted semigovernment bonds	115	—
Listed shares	95	—
Listed debentures	93	142
Inventories:		
Raw materials and stores	60	50
Construction work in progress	56	101
Land held for resale	54	62
Freehold land	500	—
Buildings	600	200
Leasehold improvements	39	26
Plant and equipment (3)	5,181	2,367
Goodwill	72	—
Deferred research and development	23	30
	6,971	3,002
Reduction in liabilities:		
Current liabilities:		
Trade creditors	14	—
Other creditors	—	13
	14	13

(cont.)

	Consolidated 1989 (A$000)	Consolidated 1988 (A$000)
Noncurrent liabilities:		
Bank loans	100	—
Other loans	291	129
	391	129
Dividends paid	600	500
Income tax paid	206	200
Employee entitlements paid	73	96
Service warranties paid	45	64
Settlement of paper mill redundancy claim (reported as an extraordinary item)	944	—
	1,868	860
	13,000	5,058

(1) Reconciliation of operating profit before income tax with funds from operations.

	1989 (A$000)	1988 (A$000)
Operating profit before income tax	3,067	1,244
Add: Depreciation	652	772
Amortization	420	416
Provision for employee entitlements	601	298
Provision for diminution in value of investments	111	100
Net unrealized foreign exchange losses	64	20
Proceeds from sales of noncurrent assets	4,213	1,491
	9,128	4,341
Deduct: Transfer from provision for service warranties	50	—
Net profit from sales of noncurrent assets	818	173
Funds from operations	8,260	4,168

(2) During the year a subsidiary was acquired. Assets and liabilities acquired have been included in the sources and applications of funds in the amounts shown under "Increase in Assets" and "Increase in Liabilities." Details of the acquisition are as follows:

	(A$000)
Consideration: 600,000	
Ordinary shares issued at A$2 per share	1,200
Minority interest at date of acquisition	752
	1,952
Net assets of subsidiary acquired	
Freehold land	250
Buildings	481
Plant and equipment	764
Inventories (current):	
Work in progress	100
Finished goods	250
Trade debtors (current)	130
Bank loans (current)	(95)
	1,880
Goodwill on acquisition	72
	1,952

(3) During the year an interest in a joint venture was acquired. Details of the acquisition are as follows:

	(A$000)
Consideration:	
Patent rights	100
Cash	200
	300
Assets acquired:	
Plant and equipment	300

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in Australia

General Information	Answer	Comments
1. Is a primary purpose of an audit:		
a. to attest to information used by investors, creditors, etc.?	Yes	
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	1*b*. Companies Code and AUS 1.
c. for tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field-work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been published in *Codification of Statements on Auditing Standards.* Do	Yes	2A. AUS 1, *Statement of Auditing Standards,* and AUPs 1–28, *Statements of Auditing Practice.* The standards contained in AUS 1 are mandatory.

generally accepted auditing standards exist in your country?		
B. If so, are they published?	Yes	2B. In the *Members' Handbook* of the two major Australian accounting bodies.
C. If auditing standards exist in your country, are they similar to U.S. standards?	Yes	
D. If not, what are they?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	The profession	3. The Auditing Standards Board through the AARF.

Notes:

Checklist should be completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards,* unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.

AARF is the Australian Accounting Research Foundation. As mentioned in the text, the AARF was created jointly by the Australian Society of Accountants and Institute of Chartered Accountants in Australia and is similar to the AICPA in its role and authority within the profession. The Auditing Standards Board (ASB) is the division of the AARF responsible for promulgating auditing standards.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes. AUP 14	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. AUP 5	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. AUP 25	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. AUP 6	✓			
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. AUP 15	✓			
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. AUP 15	✓			
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. AUP 12	✓			
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	No	✓			10A,B. An audit committee is not currently required either by law or by the Australian regulatory bodies. AUP 12 requires

			the auditor to communicate material weaknesses in internal control to management.
B. If so, is the communication documented? (AU 325)			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. AUP 17 and AUP 24	✓	
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)	Yes. AUP 16 and AUP 27	✓	12. An auditor should plan his or her audit so that the auditor has reasonable expectation of detecting material misstatements.
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	Yes. AUP 26	✓	13A. Management is responsible for the identification, documentation, and disclosure of related party transactions.
B. If so, list the procedures.			13B. Inquire of management as to: • the name of all related parties • its affiliations with other entities • the names of all pensions and other trusts and the names of their managers and trustees Inquiries of other auditors currently involved or predecessors. Review minutes of meetings of board of directors and shareholders.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					Review shareholder records to determine the principal shareholders. Review entity's income tax returns. Review prior-year workpapers for names of known related parties. Review invoices from solicitors (attorneys).
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. AUP 5	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. AUP 8	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. AUP 8	✓			
16. The concept of "joint auditors" in certain countries (e.g., U.K. and Canada) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two	Yes		✓		

firms. This practice is not generally followed in the U.S. Does the concept of "joint auditors" exist in your country?			
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)			
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. AUP 11	✓	
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No. AUP 11	✓	17B. If the principal auditor is not satisfied with a subsidiary company's statements or has not received satisfactory information and explanations, he or she must qualify his or her report on the consolidated statements.
18. A. Is there a standard form of auditor's reports? (AU 508)	Yes. AUP 3	✓	
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)	AUS 1, AUP 3	✓	18B. • Scope limitation. • Disagreement with management regarding: —accounting policies —application of policies —compliance with policies • Uncertainty. • Material departure from accounting standards. • Noncompliance with relevant regulations and statutory requirements.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					• Inadequate disclosure of material matters necessary to give a true and fair view.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	No. AUS 1 (para. 23)	✓			
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes. AUS 1	✓			
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	Yes. AUP 8	✓			
B. If not, what date is used?					
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client (*Code of Professional Conduct,* Rule 101 and its interpretations).	Yes. AUS 1, Rules of Ethical Conduct (REC) 4	✓			
22. Please describe any standards in Australia for which there are no corresponding U.S. standards.					22. None

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in Australia

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Australia? If so, are they codified?	Yes	1. Accounting principles are codified in the form of Accounting Standards and Accounting Guidance Releases by the AARF and Approved Accounting Standards by the ASRB.
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. The profession promulgates accounting standards through the AARF. Accounting standards become company law upon approval by the ASRB.

Notes:

References to the U.S. Generally Accepted Accounting Principles column are to sections of the *FASB Current Text,* unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
Where disclosures are noted, these may not be required for all classes of companies.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes	✓			
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	No	✓			
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. AAS 10	✓ For property, buildings	✓ For other noncurrent assets		5A. Revaluation permitted but only for entire classes of non-current assets.
B. If so, define the basis.					5B. Basis of revaluations not defined but must be consistent within a class of assets.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determinable within reasonable limits? (N35)	Yes. AAS 21	✓			
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. AAS 6	✓			

8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. AAS 6	✓		
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes	✓		9A. The Companies Code allows the option of either consolidated statements or groups of separate statements. Most group accounts for Australian companies are presented in consolidated format.
B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes	✓		
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51) B. If so, list them.	Yes		✓	10A,B. Only companies can be consolidated under the Australian Companies Code. In addition, the code allows the option of either consolidated statements or groups of separate statements. However, when group accounts are prepared, they are to be accompanied by a note stating the reason why the preparation of consolidated accounts is impractical or why it is preferable for them to be prepared in this different format.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. AAS 14	✓			11. Inclusion of equity accounting in statutory consolidated statements is not permitted by NCSC. Equity information must be disclosed in supplementary statements or notes to the statutory statements.
12. Are there two methods of accounting for business combinations—the pooling-of-interest method and the purchase method? (B50)	No. AAS 21	✓			12. Acquisitions are accounted for at cost (that is, purchase method). The pooling-of-interest method is not permitted.
13. Is the method used to account for a business combination disclosed? (B50)	Yes. AAS 6	✓			13. Full disclosure is required to be made of all accounting policies adopted by an entity that could have a material impact on financial statements.
14. A. Do criteria exist for treatment of business combinations as a pooling of interest? (B50)	No	✓			
B. If so, list the criteria.					
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. AAS 18	✓			
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. AAS 18	✓			15B. Period of amortization not to exceed twenty years.

16. Are the following disclosures made for related party transactions: (R36)			
a. the nature of the relationship?	Yes. AAS 22	✓	16*a–d*. Disclosures apply to all companies other than exempt proprietary companies.
b. a description of the transactions for the periods presented?	Yes. AAS 22	✓	
c. the amounts of the transactions for the periods presented?	Yes. AAS 22	✓	
d. the amounts due to or from related parties at the balance sheet date?	Yes. AAS 22	✓	
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	No	✓	17. Not covered in standards.
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. Companies Code (Schedule 7)	✓	
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the U.S., guarantees are usually	Yes. Companies Code (Schedule 7)	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
disclosed as loss contingencies even if the possibility of loss is remote.] (C59)					
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)					
a. sales to outsiders and intersegment sales?	Yes. AAS 16	✓			
b. operating profit or loss?	Yes. AAS 16	✓			
c. identifiable assets and related depreciation, depletion, and amortization expense?	Yes. AAS 16	✓			
d. capital expenditures?	No	✓			
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	No	✓			
f. effect of a change in accounting principles?	Yes. AAS 16	✓			
21. A. Are there any requirements to disclose the effects of inflation? (C28)	No			✓	21A. SAP 1 strongly recommends current cost accounting (CCA) supplementary statements for all entities.
B. If so, list the disclosures required.					
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Companies Code (Schedule 7)	✓			

23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	No. Companies Code (Schedule 7)	✓	
B. If not, how are noncurrent assets defined?			23B. Under Schedule 7 of the Companies Code, noncurrent assets are not defined.
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes	✓	24A. There is a general accounting presumption that assets should not be carried in excess of their recoverable amounts.
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?	None specified		
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount that takes imputed interest into account? (I69)	No	✓	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. AAS 2	✓	26A. AAS 2 does not cover livestock and forestry inventories; work in progress under long-term engineering, real estate development, or construction projects; or marketable securities.
B. If not, how is inventory stated?			
C. Is the basis disclosed?	Yes	✓	
27. Does cost for inventory purposes include: (I78)			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
a. materials?	Yes. AAS 2	✓			
b. direct labor?	Yes. AAS 2	✓			
c. factory overhead?	Yes. AAS 2	✓			27*c*. Only the absorption costing method is permitted.
d. if the answer to *c* is yes, is an allocable share of all factory overhead included?	Yes. AAS 2	✓			
28. A. Are the following cost methods permitted for reporting purposes: (I78)					
a. first-in, first-out (FIFO)?	Yes. AAS 2	✓			
b. last-in, first-out (LIFO)?	No. AAS 2			✓	
c. average cost?	Yes. AAS 2	✓			
B. Are the same methods permitted for tax purposes?	Yes	✓			28B. LIFO is not permitted for tax purposes.
29. Is the inventory costing method used disclosed? (I78)	Yes. AAS 2	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. AAS 4	✓			30A. Livestock and investment properties are excluded from the standards.
B. If so, is an accumulated depreciation account used?	Yes. AAS 4	✓			
31. Are disclosures made of: (D40)					
a. depreciation expense for the period?	Yes. Companies Code (Schedule 7) and AAS 4	✓			

b. balances of major classes of depreciable assets?	Yes. AAS 4	✓	
c. the methods used to compute depreciation for the major asset classes?	Yes. AAS 6	✓	
d. accumulated depreciation, either by major class of assets or in total?	Yes. Companies Code (Schedule 7) and AAS 4	✓	
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. AAS 17	✓	
B. If so, list the criteria and disclosure requirements.			32B. If substantially all of the risks and benefits incidental to ownership of the leased property effectively remain with the lessor, the lease is an operating lease. If substantially all risks and benefits incidental to ownership of leased property pass to the lessee, a finance lease exists.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. AAS 17	✓	
B. If so, list the criteria, type of lease, and disclosure requirements.			33B. See comment for question 32B.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. Companies Code (Schedule 7)	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No	✓			
B. If not, how are noncurrent liabilities defined?					35B. Under Schedule 7 of the Companies Code, noncurrent liabilities exclude liabilities that would in the ordinary course of business be due and payable within twelve months.
36. For notes payable, is disclosure made of: (C32)					
a. interest rates?	No	✓			
b. maturities?	No	✓			
c. assets pledged as collateral?	Yes. Companies Code (Schedule 7)	✓			
d. covenants to reduce debt?	No	✓			
e. minimum working capital requirements?	No	✓			
f. dividend restrictions?	No	✓			
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. AAS 11	✓			37A. Percentage of completion is the favored method. Completed contract is used when percentage of completion and other data are not determinable.
B. If so, what are the criteria for determining the method to be used?					37B. Method of profit recognition:

- The amount of profit on fixed-price contracts shall be recognized in accordance with the percentage-of-completion method when all of the following conditions are satisfied:
  - —total contract revenues to be received can be reliably estimated.
  - —the costs to complete the contract can be reliably estimated.
  - —the stage of contract completion can be reliably determined.
  - —the costs attributable to the contract to date can be clearly identified and can be compared with prior estimates.
- The amount of profit on cost-plus contracts shall be recognized in accordance with the percentage-of-completion method when all of the following conditions are satisfied:
  - —the costs attributable to the contract to date can be clearly identified.
  - —costs other than those that will be specifically reimbursable under the contract can be reliably estimated.
  - —if payment under the terms of the contract is calculated

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					by reference to the stage of contract completion, that stage can be reliably determined. • If these specified conditions (whichever is appropriate to the form of contract used) are not satisfied, either at the inception of a construction contract or during the course of a contract, no profit shall be recognized until they are so satisfied.
38. A. Are research costs charged to expense when incurred? (R50)	Yes. AAS 13	✓			38A. See paragraph 85 of text.
B. Are such costs disclosed?	Yes. AAS 13	✓			38B. Disclosures comprise: • amount of R&D charged to profit and loss during the year before crediting any related grants. • amount of R&D incurred during year and deferred to future years before crediting any related grants. • amount of deferred R&D at end of year with accumulated amortization shown separately as a deduction. • basis for amortizing any deferred R&D costs.

39. A. Are development costs charged to expense when incurred? (R50)	Yes. AAS 13	✓	39A. See paragraph 85 of text.
B. Are such costs disclosed?	Yes. AAS 13	✓	39B. See the comment to question 38B.
40. A. In the U.S., events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in Australia? (I17)	Yes. Companies Code (Schedule 7) and AAS 1	✓	40A. For an item to be classified as extraordinary it must be both outside the ordinary operations of the business and be of a type that is by nature non-recurring.
B. If not, what are the criteria?			
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. Companies Code (Schedule 7) and AAS 1	✓	
42. A. Are disclosures required for:			
a. extraordinary items? (I17)	Yes. Companies Code (Schedule 7) and AAS 1	✓	
b. material events or transactions not classified as extraordinary items? (I22)	Yes. Companies Code (Schedule 7) and AAS 1	✓	
c. a disposal of a segment of a business? (I13)	Yes. Companies Code (Schedule 7) and AAS 1	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. Indicate the financial statement presentation of these items.					42B. Extraordinary items are shown both gross and net of tax after operating profit. Disposal of a significant business would normally be considered an extraordinary item. It would also appear as a disclosure in the statement of sources and applications of funds.
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	No	✓			
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	No	✓			
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes. Companies Code (Schedule 7)		✓		44A. Disclosures are required only for listed and borrowing corporations and for certain larger corporations.
B. If so, list them.					44B. Description of each plan, principal benefits, basis of contributions, whether contributions are legally enforceable, date of last actuarial assessment, name and qualifications of actuary, whether funds are available to satisfy benefits if plan is terminated, and particulars of any deficiency of funds.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as	Yes. AAS 3	✓			45A–C. See paragraph 91 of text.

opposed to permanent differences)? (I25)			
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	Yes. AAS 3	✓	
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?			
46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I25)	No	✓	
B. If not, on what basis?			46B. Liability method is used. Deferred tax liabilities are calculated by applying current tax rates to timing differences. The estimates are later amended if the tax rates change.
47. A. Is specific information related to income taxes required to be disclosed? (I25)	Yes. Companies Code (Schedule 7) and AAS 3	✓	
B. If so, list the requirements.			47B. Companies other than exempt proprietary companies are required by Schedule 7 of the Companies Code to show a reconciliation if the prima facie tax on results varies by more than 15 percent from actual tax expense. The accounting standard AAS 3 requires disclosure in a note of the general nature of material permanent differences and the extent to which they have affected the amount of income tax expense.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25)	No			✓	
B. If so, are the tax effects of a loss carryforward included in the income in the period?					
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes. AAS 3	✓			
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes. AAS 3	✓			
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. AAS 20	✓			
51. Are all elements of financial statements translated at current exchange rates? (F60)	No. AAS 20	✓			
52. A. Are translation adjustments reported separately? (F60)	Yes. AAS 20	✓			
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. AAS 20	✓			

C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Yes. AAS 20	✓	
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes. AAS 20	✓	
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. AAS 20	✓	
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transaction? (F60)	Yes. AAS 20	✓	
55. What information is disclosed about foreign currency restrictions? (F60)	None required	✓	
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto? (C59)	Yes. AAS 8	✓	
57. Please list any standards for Australia for which there are no corresponding U.S. standards.			57. Optional revaluation of noncurrent assets as discussed in AAS 10.

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