FINANCIAL REPORTING PRACTICE GUIDANCE NO. 1 OF 2014

AREAS OF REVIEW FOCUS FOR FY2013 FINANCIAL STATEMENTS UNDER THE FINANCIAL REPORTING SURVEILLANCE PROGRAMME ADMINISTERED BY THE ACCOUNTING AND CORPORATE REGULATORY AUTHORITY (ACRA)

ACRA will review selected financial statements for financial years ended between 1 January 2013 and 31 December 2013 (FY2013 Financial Statements) during the period from 1 April 2014 to 31 May 2015 under the Financial Reporting Surveillance Programme (FRSP). For details on the FRSP, as well as directors' duties in relation to financial reporting, please refer to ACRA's Practice Direction No. 2 of 2014.

To guide directors and other financial statements preparers, ACRA is publishing the areas of the FRSP's review focus for FY2013 Financial Statements. This will serve to remind directors of the risks of misstatements and/or non-disclosures in the financial statements as well as the information needs of shareholders and other stakeholders.

The following areas will be the areas of review focus for this cycle:

1. New standards

Financial Reporting Standard (FRS) 113 'Fair Value Measurement' applies for the financial years beginning on or after 1 January 2013. As it provides a single framework for measuring fair value and requires disclosures about fair value measurement, directors should carefully review and ensure compliance with the new requirements. Directors of companies with significant investment property carried at fair value should also expect more disclosures including the fair value hierarchy and where applicable, level 3 recurring measurements.

Several new accounting standards[1], which will require companies to reconsider their scope of consolidation and how to account for joint ventures, are effective in the next financial year. Directors are encouraged to review and understand the new requirements and consider their implications at an early point. In compliance with the accounting standards, meaningful disclosures on the impact of adoption of these standards which have been issued but not yet effective should be made in the FY2013 Financial Statements. When in doubt, directors should seek professional help and advice.

[1] FRS 110: 'Consolidated Financial Statements', FRS 111: 'Joint Arrangements', FRS 112: 'Disclosures of Interests in Other Entities', FRS 27: 'Separate Financial Statements' and FRS 28: 'Investments in Associates and Joint Ventures'.

2. Significant accounting policies

Directors should review the significant accounting policies and ensure that they are relevant to an understanding of the financial statements. This includes ensuring that the significant accounting policies:

(a) are complete for all material items;

(b) meaningfully explain the actual business practices, activities and operation, rather than described using general phrases from the accounting standards; and

(c) reflect the substance of the transactions.

3. Going concern

Directors need to be realistic with their assumptions about a company's future prospects, particularly in the dynamic economic environment or where the company has continuing losses.

Where a company is assessed to be a going concern, but material uncertainty exists, the financial statements must adequately disclose the uncertainty and why despite the uncertainty, the directors still consider the company to be a going concern.

Directors should continue to review the company's ability to refinance maturing debt and ongoing compliance with loan covenants. Directors should also focus on the classification of assets and liabilities between current and non-current.

4. Accounting judgement and estimation uncertainties

Disclosures regarding significant judgements in applying accounting policies and sources of estimation uncertainties are important to allow users of the financial statements to assess the reported financial position and performance of a company. Such circumstances could arise when a company has material uncollectible trade receivables, slow-moving or obsolete inventories, uncertain tax positions, contingent liabilities and impairment of assets.

Directors should tailor and be specific when making such disclosures, avoiding boilerplate disclosures. In view of the dynamic economic environment, directors should also expect more disclosures, including the sensitivity of the carrying amounts to the underlying methods, assumptions and estimates, the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected.

5. Asset value and impairment testing

Directors should continue to focus on the recoverability of the carrying values of non-current assets including goodwill, other intangibles and property, plant and equipment. Directors should exercise professional skepticism and challenge the appropriateness of asset values and assumptions underlying impairment calculations, particularly in the context of dynamic economic conditions and where prior period financial forecasts have not been met.

It is important to ensure that:

(a) the events and circumstances that led to the recognition or reversal of each material impairment loss are disclosed;

(b) where the carrying amount of the company's net assets is greater than its market capitalisation, an impairment test is performed;

(c) when an impairment test is conducted on material assets, it is likely to involve significant judgement and estimates, which should be identified and disclosed; and

(d) when the recoverable amount has been determined on the basis of value in use, a description of each key assumption on which management has based its cash flow projection and of management's approach to determining the value(s) assigned to each assumption is disclosed.

6. Financial risk and capital management disclosures

Disclosures relating to financial instruments are provided in the financial statements to enable users to evaluate the significance of financial instruments to the company's financial position and performance, and the nature and extent of risks arising from the financial instruments to which the company is exposed and how the company manages those risks.

Directors should ensure that the disclosures provided enable an understanding of the nature or extent of the company's exposure to risk or how it is managed in practice. Where certain financial risks become more material, directors are encouraged to reconsider the nature and extent of the company's disclosures rather than repeat previously published information, particularly about the company's policies and processes for managing the risks. The directors should also consider whether the quantitative information provided is representative of the company's position during the year and, if it is not, provide further information that is representative.

7. Related party disclosures

Directors should ensure that related party disclosures are made clearly and adequately in accordance with FRS 24 ‘Related Party Disclosures’. This includes disclosing the nature of the related party relationship and specific terms and conditions relating to each type of transactions and outstanding balances. Such information can assist investors in understanding the impact of related party transactions on the entity’s financial performance and financial position.

8. Consolidated financial statements

Directors are reminded that unless the exemption criteria specified in FRS 27 ‘Separate Financial Statements’ are met, consolidated financial statements should be prepared when a company has one or more subsidiaries. Reasons including impracticable to consolidate or that the costs of preparing consolidated financial statements outweigh the benefits, are not part of the exemption criteria in FRS 27. When consolidated financial statements are prepared, comparative information should be similarly presented on a consolidated basis.

The above factors are provided as a general guideline. They do not exhaustively define the requirements of the Accounting Standards[2]. When in doubt, professional help ought to be sought by directors. ACRA also reserves the right to conduct review of the other areas in the financial statements as deemed necessary.

[2] Accounting Standards refer to Singapore Financial Reporting Standards (SFRS), Singapore Financial Reporting Standards for Small Entities (SFRS for SE) and Charities Accounting Standards, as issued by the Accounting Standards Council.