



**ASIC**  
Australian Securities &  
Investments Commission

## REGULATORY GUIDE 85

# Reporting requirements for non-reporting entities

March 2022

### About this guide

This guide provides guidance on application of the reporting entity test and the reporting obligations for non-reporting entities.

In particular, ASIC believes that non-reporting entities, which are required to prepare financial reports in accordance with Ch 2M of the *Corporations Act 2001* (Corporations Act), should comply with the recognition and measurement requirements of accounting standards.

This guide also discusses:

- the obligations of directors and auditors to carefully consider whether an entity should be classified as a reporting entity or a non-reporting entity; and
- when consolidated financial statements must be prepared.

### About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

**Consultation papers:** seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

**Regulatory guides:** give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

**Information sheets:** provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

**Reports:** describe ASIC compliance or relief activity or the results of a research project.

### Document history

This guide was issued in March 2022 and is based on legislation and regulations as at the date of issue.

Previous versions:

- Superseded Regulatory Guide 85, issued July 2005
- Superseded Information Release [IR 00/025] *Reporting requirements for non-reporting entities*

### Disclaimer

This guide does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this guide are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

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## A Overview

### Key points

From years commencing 1 July 2021, the reporting entity regime is no longer available to for-profit entities in the private sector that lodge financial reports with ASIC.

Some companies which prepare financial reports as non-reporting entities may be reporting entities. Classification of the company as a reporting or non-reporting entity affects the disclosures made in the financial report. Users of the reports may not be receiving all the information they need to make investment decisions.

The financial reports are not always prepared in compliance with the recognition and measurement requirements of the accounting standards. We believe compliance with those requirements is necessary to meet the financial reporting obligations under the Corporations Act.

- RG 85.1 From years commencing on or after 1 July 2021, the reporting regime for non-reporting entities ceases to be available to for-profit entities in the private sector that lodge financial reports with ASIC. However, the regime remains available to not-for-profit entities and to for-profit entities.
- RG 85.2 ASIC's reviews of financial reports have shown that some companies that claimed to be non-reporting entities should have been classified as reporting entities.
- RG 85.3 Those reviews have also revealed that recognition and measurement requirements of the accounting standards have not been complied with by a number of companies. These requirements include those relating to depreciation of non-current assets, tax effect accounting, lease accounting, measurement of inventories, and recognition and measurement of liabilities relating to employee entitlements.
- RG 85.4 We believe there needs to be assurance for all companies whose financial reports are prepared in accordance with the requirements of the Corporations Act that the balance sheet reflects all, and only all, assets and liabilities, and that the profit and loss statement (income statement) reflects all, and only all, revenues and expenses.
- RG 85.5 Key representatives of the accounting profession who we consulted in preparing this release share our concerns over the quality of financial reports.
- RG 85.6 The purpose of this guide is to provide guidance on the application of accounting standards to entities which are required to prepare a financial report in accordance with the Corporations Act.

## B Guidance

### Key points

This section provides guidance for financial reporting by non-reporting entities on:

- the need to apply the recognition and measurement requirements of accounting standards;
- the importance of disclosing information necessary to give a true and fair view as well as information mandated by accounting standards; and
- the preparation of consolidated financial statements.

### Accounting provisions applicable to non-reporting entities

- RG 85.7 The accounting standards provide a framework for determining a consistent meaning of ‘financial position’ and ‘profit or loss’ in financial reporting across entities.
- RG 85.8 In the absence of any such framework, the figures disclosed in financial statements would lose their meaning and could be determined completely at the whim of the directors of individual entities. The profit or loss reported by an individual entity would vary greatly depending on which individuals were responsible for preparing its financial statements.
- RG 85.9 This would not be consistent with the requirements of the Corporations Act for financial reports to give a true and fair view (s297), prohibiting the giving of false and misleading information (s1308), and the provisions for paying dividends (s254T).
- RG 85.10 The following requirements of accounting standards that apply to all entities reporting under Ch 2M are also relevant:
- (a) Paragraph AusCF15 of Accounting Standard AASB 101 *Presentation of Financial Statements* (AASB 101) requires the financial report to present fairly the financial position, financial performance and cash flows. Fair presentation requires ‘the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework [for the Preparation and Presentation of Financial Statements]* (Framework)’.
  - (b) Paragraph 27 of AASB 101 requires all entities reporting under Ch 2M to apply the accrual basis of accounting.

- (c) Paragraphs 10 and AusCF11 of Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides that, in the absence of an Australian accounting standard that specifically applies to a transaction, other event or condition, management should refer to, and consider the applicability of, the following sources in descending order:
- (i) the requirements in Australian accounting standards dealing with similar and related issues; and
  - (ii) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

RG 85.11 Hence, the recognition and measurement requirements of accounting standards must also be applied in order to determine the financial position and profit or loss of any entity preparing financial reports in accordance with the Corporations Act.

RG 85.12 As noted earlier, the recognition and measurement requirements of the accounting standards include requirements relating to depreciation of non-current assets, tax effect accounting, lease accounting, measurement of inventories, and recognition and measurement of liabilities for employee entitlements.

RG 85.13 The provisions of accounting standards dealing with the classification of items as assets, liabilities, equity, income and expenses also apply. This would include the provisions of Accounting Standard AASB 132 *Financial Instruments: Presentation* concerning the classification of financial instruments issued as debt or equity.

RG 85.14 [ASIC Corporations \(Non-Reporting Entities\) Instrument 2015/841](#) allows non-reporting entities to take advantage of concessions to the measurement requirements of accounting standards. Examples of these concessions include the provisions of Accounting Standard AASB 1 *First-time Adoption of Australian Accounting Standards* and transitional provisions in new accounting standards.

RG 85.15 Directors of non-reporting entities must also consider carefully the need to make disclosures which are not directly prescribed by accounting standards, but which may be necessary in order for the financial statements to give a true and fair view. Such disclosures could include certain significant related party transactions.

RG 85.16 We will look closely at cases where non-reporting entities have not complied with the recognition and measurement requirements of accounting standards.

RG 85.17 Non-reporting entities which hold out their financial reports to be general purpose financial reports must comply with all requirements of accounting standards.

## Significance of reporting entity status

- RG 85.18 Reporting entities required to prepare a financial report in accordance with Ch 2M of the Corporations Act must comply with the requirements of all accounting standards.
- RG 85.19 The directors' determination as to whether a company should be classified as a reporting entity or a non-reporting entity is an important decision affecting the level of disclosure in the company's financial report. Directors are required under s295(4)(d) of the Corporations Act to make a declaration as to whether a company's financial statements comply with accounting standards. Directors need to make their decision regarding reporting entity status carefully in view of the requirement to make this declaration.
- RG 85.20 Directors of an entity that identifies itself as a non-reporting entity and elects not to adopt the requirements of all accounting standards would be in breach of the requirement to comply with accounting standards contained in s296 of the Corporations Act if the circumstances of the entity point to it being a reporting entity. 'Reporting entity' is defined for the purposes of Accounting Standard AASB 1053 *Application of Tiers of Australian Accounting Standards* as follows:
- 'An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.'
- RG 85.21 The auditor of a company will also need to make a decision about the appropriateness of the classification of an entity as a non-reporting entity in forming an opinion in accordance with s307 of the Corporations Act as to whether the entity's financial report complies with accounting standards.
- RG 85.22 The following accounting standards apply in full to non-reporting entities required to prepare a financial report in accordance with Ch 2M of the Corporations Act:
- (a) AASB 101 *Presentation of Financial Statements*;
  - (b) AASB 107 *Statement of Cash Flows*;
  - (c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
  - (d) AASB 1048 *Interpretation of Standards*;
  - (e) AASB 1053 *Application of Tiers of Australian Accounting Standards*;
  - and
  - (f) AASB 1054 *Australian Additional Disclosures*.

## Classification as a non-reporting entity

- RG 85.23 In applying the definition of ‘reporting entity’, directors and auditors must consider whether there are existing or potential users who may be dependent on general purpose financial reports. Existing shareholders are not the only users to consider; therefore, an entity should not be regarded as a non-reporting entity solely because there is little or no separation between its members and management (e.g. the shareholders are involved in the day-to-day management of the company).
- RG 85.24 Our review of financial reports has revealed that some companies that claimed to be non-reporting entities should have been classified as reporting entities. These companies had a significant number of creditors and employees and it was reasonable to expect the existence of users dependent on general purpose financial reports. The financial reports of these companies had been accessed on ASIC’s public database on a number of occasions by external parties during a 12-month period.
- RG 85.25 We will look closely at cases where entities claim to be non-reporting entities and will seek explanations from directors where it appears reasonable to expect that there are users dependent on general purpose financial reports.

## Consolidated financial statements

- RG 85.26 Some companies have failed to prepare consolidated financial statements on the grounds that the parent entity was not a reporting entity. Accounting Standard AASB 10 *Consolidated Financial Statements* applies to each entity that is the parent of a group that is a reporting entity regardless of whether the parent entity itself is a reporting entity. For example, a parent entity with nominal capital and no active operations is expected to prepare consolidated financial statements if the group is a reporting entity.
- RG 85.27 Considerations in determining whether a group is a reporting entity may include that creditors which provide finance to a company which has entered into deeds of cross guarantee with other entities within the group would be interested in the consolidated financial statements of the group.
- RG 85.28 Even where there are no such deeds, consolidated financial statements may provide creditors of a parent entity with information such as the activities of the group, assets within the group, and the ability of controlled entities to generate future income and pay dividends to the parent. Consolidated financial statements prepared by a parent entity may similarly provide creditors of one of its controlled entities with information on the ability of the other entities in the group to support the controlled entity.
- RG 85.29 The sole determining factor as to whether consolidated financial statements are required is whether the group is a reporting entity.



## Key terms

Term	Meaning in this document
AASB	The Australian Accounting Standards Board
accounting standards	As defined in s9 of the Corporations Act
ASIC	Australian Securities and Investments Commission
Ch 2M (for example)	A chapter of the Corporations Act (in this example numbered 2M), unless otherwise specified
Corporations Act	The <i>Corporations Act 2001</i> , including regulations made for the purposes of the Corporations Act
Framework	The <i>Framework for the Preparation and Presentation of Financial Statements</i> as cited in Australian accounting standards
reporting entity	See definition of 'reporting entity' in RG 85.20 above
s297 (for example)	A section of the Corporations Act (in this example numbered 297), unless otherwise specified

## Related information

### Headnotes

accounting standards, conceptual framework, consolidated financial statements, non-reporting entities, not-for-profit entities, note disclosure, public sector entities, recognition and measurement, reporting framework, special purpose financial reports, true and fair view

### Legislative instruments

[ASIC Corporations \(Non-Reporting Entities\) Instrument 2015/841](#)

### Legislation

Corporations Act, Ch 2M; s254T, 295(4)(d), 296, 297, 307, 1308

### Accounting standards

AASB 1 *First-time Adoption of Australian Accounting Standards*

AASB 10 *Consolidated Financial Statements*

AASB 101 *Presentation of Financial Statements*

AASB 107 *Statement of Cash Flows*

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

AASB 132 *Financial Instruments: Presentation*

AASB 1048 *Interpretation of Standards*

AASB 1053 *Application of Tiers of Australian Accounting Standards*

AASB 1054 *Australian Additional Disclosures*

*Framework for the Preparation and Presentation of Financial Statements*