



# Financial Reporting by Private Companies in Australia: Current Practice and Opportunities for Research

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# Background

- Differential reporting in Australia has a long history
  - larger, more economically and socially important entities should report more
  - the rationale for the approach is clear, although disclosure practice varies
    - AASB Research Report 1
      - High incidence of Special Purpose Financial Statements
        - » 20 percent of large pty companies produced tier 1 statements
        - » Factors in SAC 1 do not predict reporting choice
        - » Great variation in disclosure within SPFS
- Recent developments in differential reporting
  - AASB 1053
    - Tier 2 reporting for non publicly accountable entities
    - IFRS recognition and measurement



# The current study

- In light of the foregoing, our aim is to examine financial reporting practices by large pty companies in Australia
  - Data spanning the period 2008-2015
  - lodgements made to the ASIC by a random sample of 394 large proprietary companies.
- In doing so, our objective is twofold;
  - to better understand the reporting financial reporting choices made by companies, including the decision to adopt (or not) AASB 1053 Application of Tiers of Australian Accounting Standards; and
  - to document the special purpose financial reporting practices of private companies.
- This constitutes a significant contribution to the existing literature by:
  - Offering further insight into disclosure practice by large private companies
  - Assisting a greater understanding of the role of accounting standards in shaping disclosure practice.
  - Informing current debates about future differential reporting thresholds and policies
- We identify a range of opportunities for further research



# Findings

- The reporting entity concept

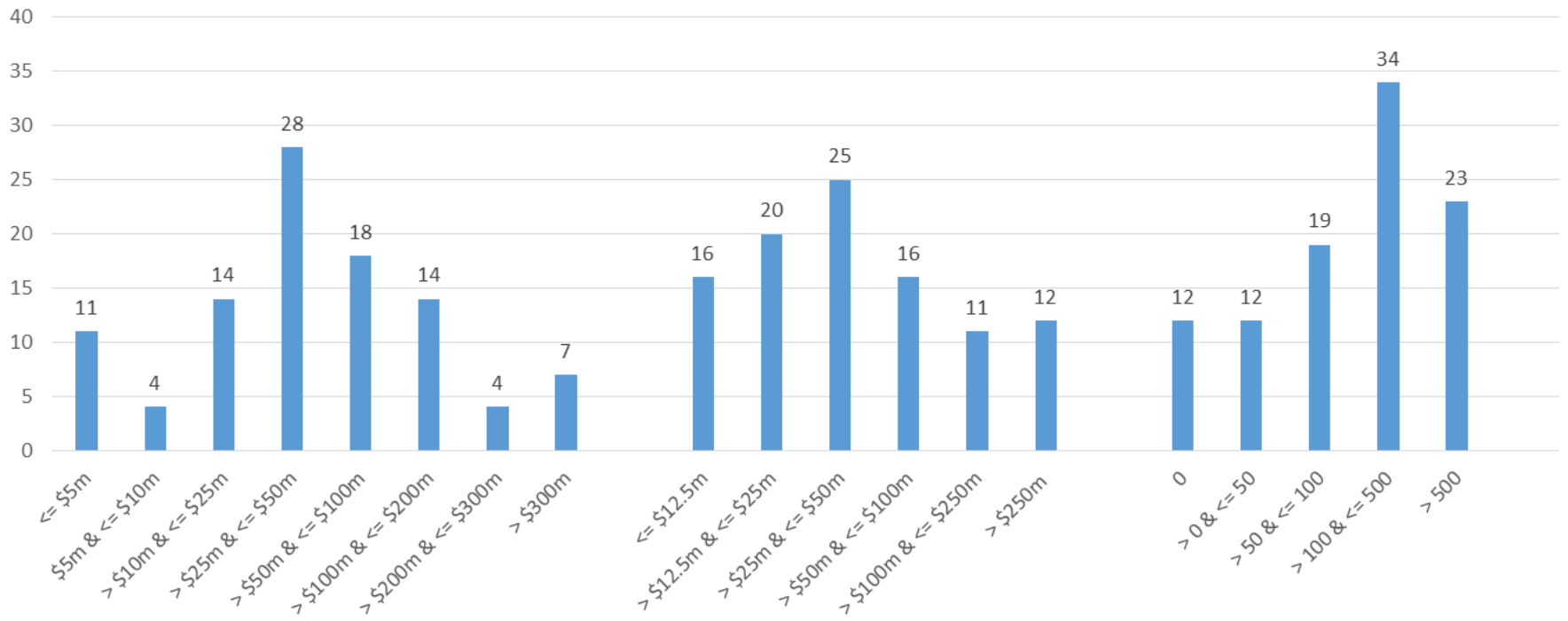
**Table 1: Reporting Choices made by Large Proprietary Companies 2008-2015**

	Firm years		Companies	
	Freq.	Percent.	Company Obs	Percent of Obs
<b>General Purpose</b>	199	18.93	47	22.27
<b>Special Purpose</b>	823	78.31	154	72.99
<b>Reduced Disclosure</b>	29	2.76	10	4.70
<b>Totals</b>	1,051	100.00	211	100.00



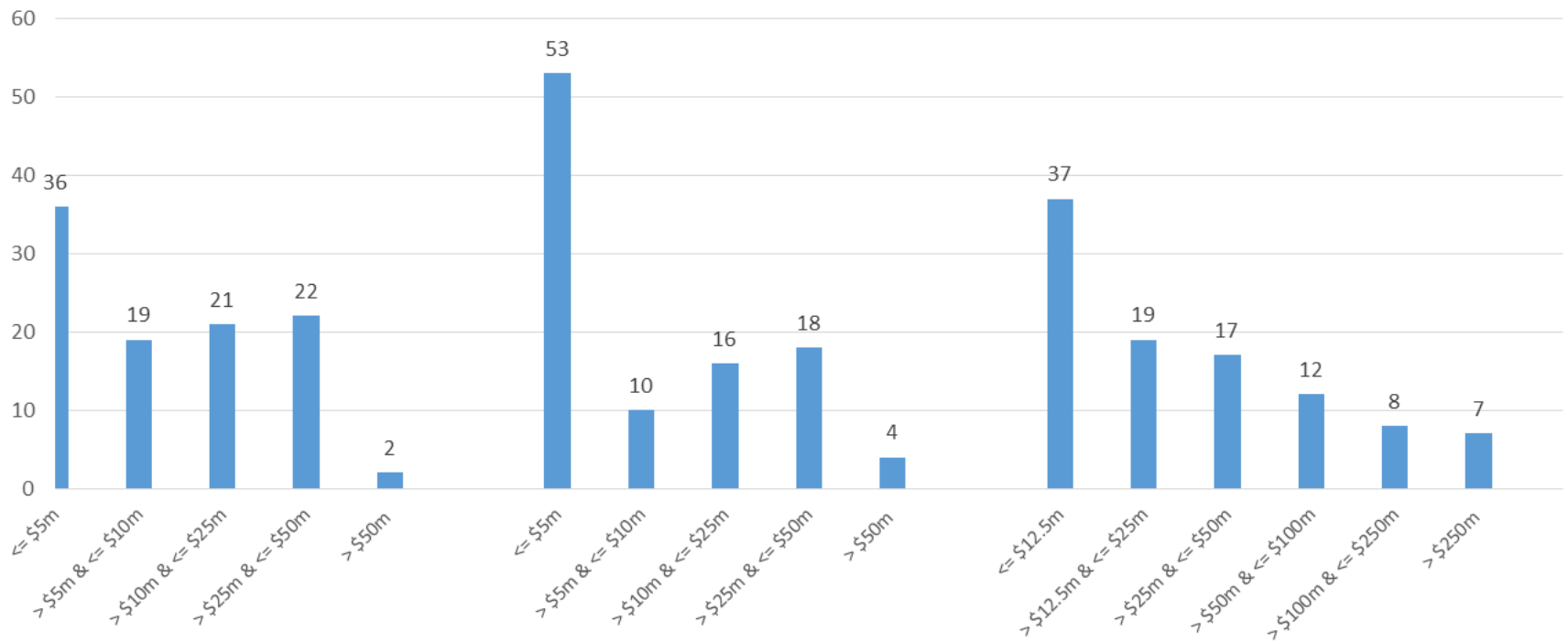
# We further examine who is producing SPFS

Figure 1. Comparison of the Proportion of Companies Lodging SPFSs by Size-Thresholds (Employees, Assets, Revenue)



# SPFS reporters

Figure 2. Comparison of the Proportion of Companies Lodging SPFSs by Indebtedness-Thresholds (Liabilities, Bank Debt, Creditors)

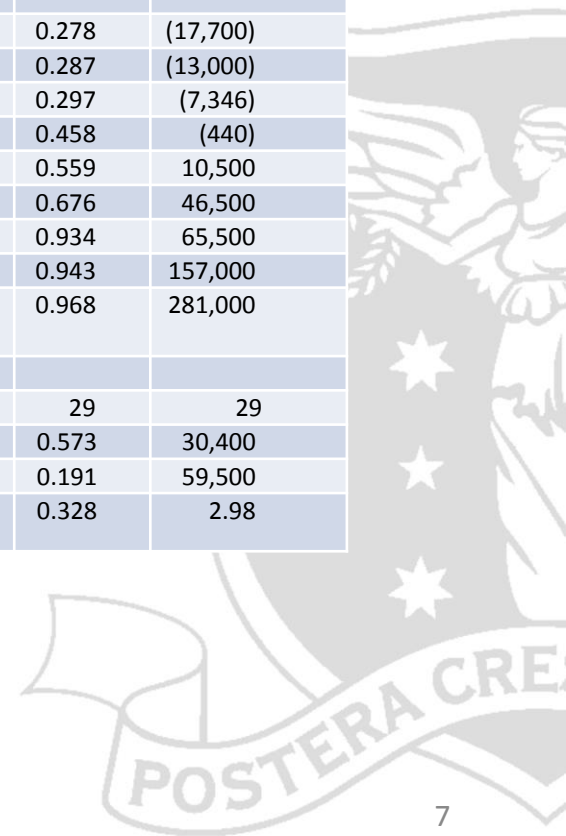


# Exploring the Adoption of Tier 2 reporting

- Take-up by large proprietary companies is low

Percentile	Members	Employees	Trading Revenue (000's)	Assets (000's)	Liabilities (000's)	Bank debt (000's)	Creditors (000's)	Gearing	Operating Cash Flow (000's)
1	1	0	20,000	9,876	6,099	0	3,645	0.278	(17,700)
5	1	0	25,600	11,800	6,440	0	4,511	0.287	(13,000)
10	1	0	73,500	42,400	15,300	0	5,562	0.297	(7,346)
25	1	322	83,500	63,100	17,100	2,836	7,755	0.458	(440)
50	1	503	214,000	190,000		11,500	59,400	0.559	10,500
75	11	668	406,000	591,000	484,000	195,000	296,000	0.676	46,500
90	30	960	571,000	1,390,000	778,000	674,000	469,000	0.934	65,500
95	31	1,070	604,000	1,700,000	969,000	781,000	590,000	0.943	157,000
99	78	6,356	4,710,000	10,800,000	5,110,000	4,020,000	4,710,000	0.968	281,000
N	26	25	26	29	29	29	26	29	29
Mean	9.38	706.56	414,000	682,000	363,000	247,000	306,000	0.573	30,400
Std Dev.	16.85	1,215.02	892,000	1,980,000	943,000	749,000	914,000	0.191	59,500
Skewness	2.89	4.23	4.54	4.78	4.64	4.62	4.56	0.328	2.98

- Doesn't capture 'new' reporters
  - Perhaps reporting choices are 'sticky'



## Further analysis

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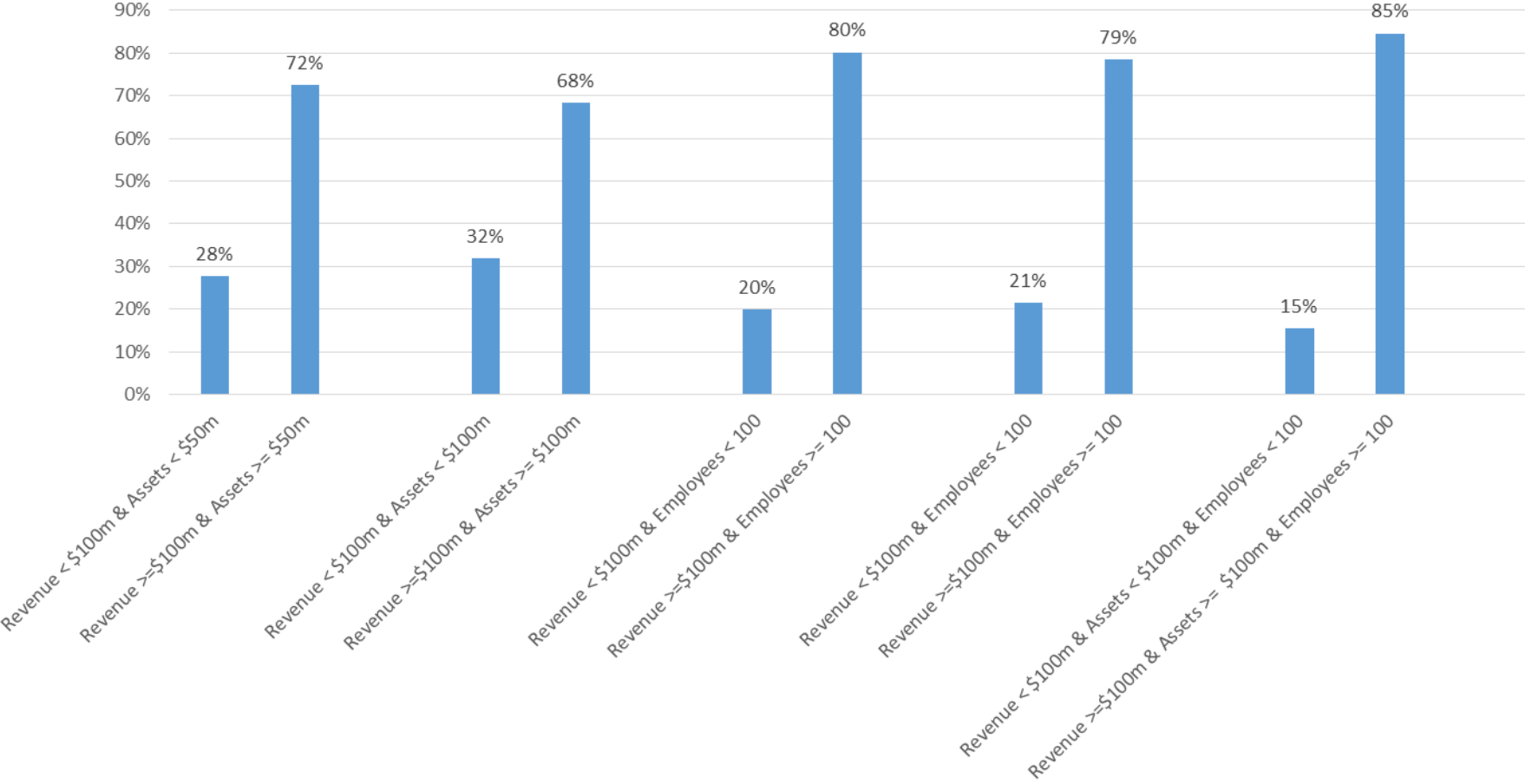
- Anecdotes are also important to capture the variation in reporting
- Disclosures practices in special purpose reports
  - Application of recognition and measurement





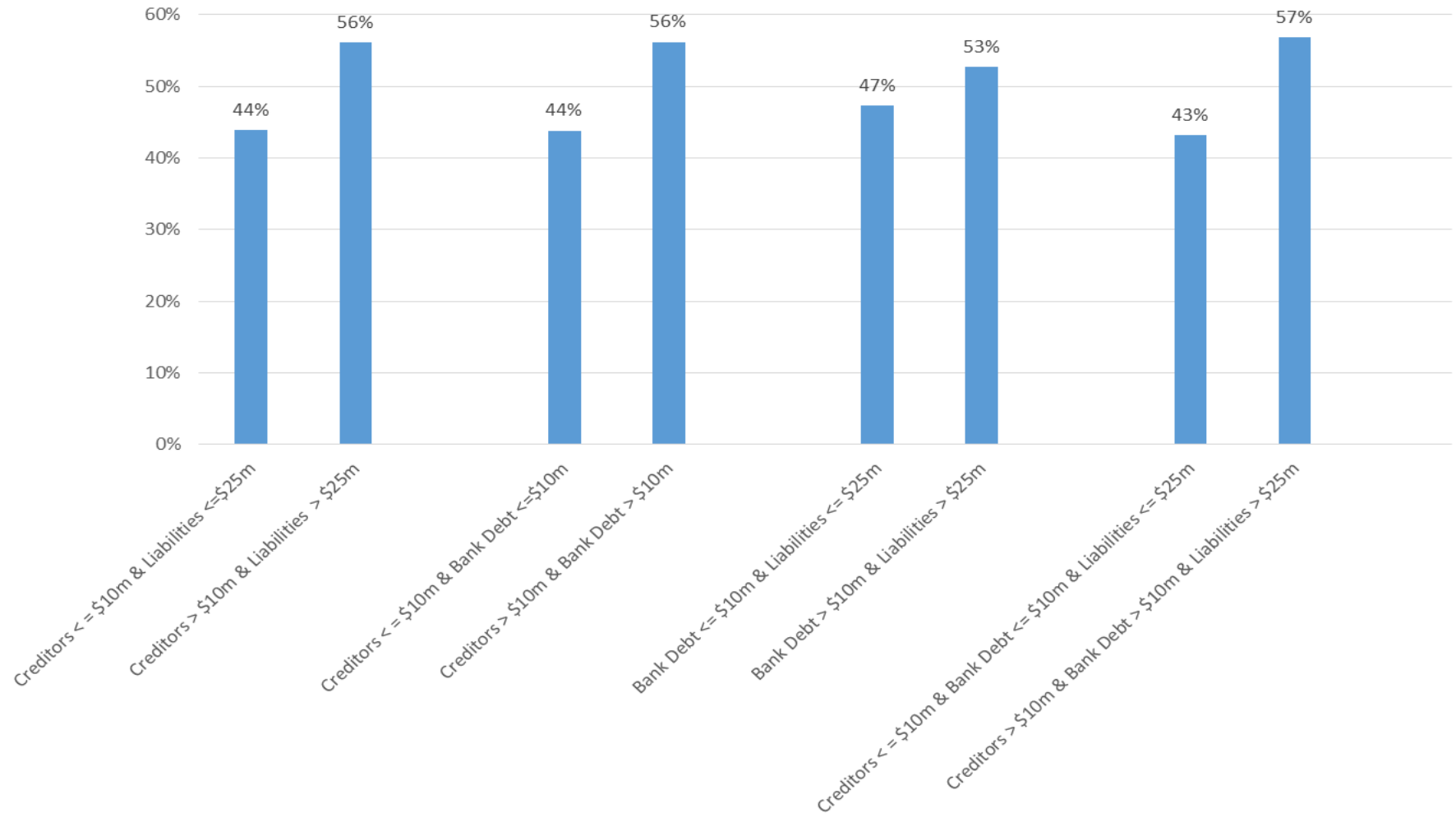
# Should we consider specific threshold tests for reporting?

Figure 3. Comparison of the Proportion of Companies Lodging SPFSs by Different Combinations of Size-Thresholds



# Should we consider specific threshold tests for reporting?

Figure 4. Comparison of the Proportion of Companies Lodging SPFSs by Different Combinations of Indebtedness-Thresholds



## Conclusions and next steps

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- Special purpose financial reporting is common among large proprietary companies
- Adoption of Tier 2 reporting is low
  - The reasons for the adoption of the new requirements are not clear
- There is significant variation in disclosure practices in special purpose reports



# Conclusions and next steps

- Big questions for further research
  1. Who should report?
  2. How should they report?
- From our study
  - What drives the differences in use of available standards?
    - Costs
    - Stickiness
    - Taxation reporting
  - RDR v SPFS
    - Modelling the choice
  - Grandfathered companies
    - Understanding practice
  - Is XBRL a solution?



		GPFS	SPFS	Differences
<b>Panel A: 'Size' test</b>				
Trading Revenue	Mean	\$641,000,000	\$155,000,000	t = 4.3468, p = .0000
	Median	\$71,100,000	\$484,000,000	z = 5.319, p = .0000
InTrading Revenue	Mean	\$18.49	\$17.51	t = 6.3213, p = .0000
	Median	\$18.62	\$17.72	z = 5.213, p = .0000
<b>Total Assets</b>				
Total Assets	Mean	\$1.59 b	\$270,000,000	t = 4.3307, p = .0000
	Median	\$137,000,000	\$41,200,000	z = 7.191, p = .0000
<b>In Total Assets</b>				
In Total Assets	Mean	\$19.03	\$17.57	t = 7.7449, p = .0000
	Median	\$18.74	\$17.53	z = 7.418, p = .0000
<b>No. Employees</b>				
No. Employees	Mean	551.6	335.7	t = 2.3150, p = .0110
	Median	116	103	z = 2.642, p = .0082
<b>In No. Employees</b>				
In No. Employees	Mean	5.26	4.92	t = 2.4368, p = .0078
	Median	5.11	4.95	z = 2.161, p = .0307
<b>Panel B: 'Separation of Management from Economic Interest' Test</b>				
No. Members	Mean	7	2.8	t = 4.8233, p = .000
	Median	1	1	z = 3.968, p = .000
More than 1 Member	%	57.9%	42.2%	NS
No. Directors	Mean	4.45	3.48	t = 5.3218, p = .0000
	Median	4	3	z = 4.632, p = .0000
<b>Panel C: 'Indebtedness' Test</b>				
Creditors	Mean	\$389,000,000	\$56,800,000	t = 5.1021, p = .0000
	Median	\$35,100,000	\$10,500,00	z = 6.902, p = .0000
<b>In Creditors</b>				
In Creditors	Mean	\$17.52	\$16.18	t = 7.4287, p = .0000
	Median	\$17.37	\$16.89	z = 6.694, p = .0000
<b>Bank Debt</b>				
Bank Debt	Mean	\$877,000,000	\$67,200,000	t = 4.4850, p = .0000
	Median	\$15,600,000	\$ 7,280,121	z = 6.361, p = .0000
<b>In Bank Debt</b>				
In Bank Debt	Mean	\$17.42	\$15.85	t = 6.6970, p = .0000
	Median	\$16.68	\$16.82	z = 5.397, p = .0000
<b>Total Liabilities</b>				
Total Liabilities	Mean	\$1.17 b	\$114,000,000	t = 4.7939, p = .0000
	Median	\$106,000,000	\$22,800,000	z = 7.615, p = .0000
<b>In Total Liabilities</b>				
In Total Liabilities	Mean	\$18.59	\$17.07	t = 8.4320, p = .0000
	Median	\$18.49	\$16.97	z = 7.699, p = .0000

