WESTWORTH KEMP
CONSULTANTS

710/2 York Street
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24 April 2015

The Chairman
The International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UK

The Chairwoman
Australian Accounting Standards Board
PO Box 204, Collins Street West
MELBOURNE VIC 8007

By email

Dear Sir and Madam

Re: Classification of Liabilities – Proposed amendments to AASB 101

Westworth Kemp Consultants (www.westworthkemp.com.au) value the opportunity to provide feedback into the amendment of AASB 101 (IAS 1). We are a boutique consultancy, based in Sydney, Australia, specialising in financial reporting, assurance and compliance issues, particularly in the context of litigation and dispute resolution and we also provide advice to clients on the application of financial reporting standards.

We are particularly interested in the disclosure of liabilities as current or non-current as we are aware of a number of cases involving failed entities where liabilities had been wrongly classified. Non-accountants find a failure to distinguish between current and non-current hard to understand as it is such a fundamental part of the balance sheet. Consequently, if errors are being made in this basic area, it should be looked at and we support the IASB's proposals as, in our view, they articulate the requirements more clearly than the current version of the standard, while not actually changing the requirements.

Our answers to the detailed questions posed by the IASB and the AASB are below:

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IASB questions

Question 1—Classification based on the entity's rights at the end of the reporting period
The IASB proposes clarifying that the classification of liabilities as either current or non-current should be based on the entity's rights at the end of the reporting period. To make that clear, the IASB proposes: (a) replacing 'discretion' in paragraph 73 of the Standard with 'right' to align it with the requirements of paragraph 69(d) of the Standard; (b) making it explicit in paragraphs 69(d) and 73 of the Standard that only rights in place at the reporting date should affect this classification of a liability; and (c) deleting 'unconditional' from paragraph 69(d) of the Standard so that 'an unconditional right' is replaced by 'a right'. Do you agree with the proposed amendments? Why or why not?

We support the proposed amendments and reordering of this section of IAS 1/AASB 101 as in our view the revised wording makes the circumstances in which a liability has to be presented as current clearer than in the present version of the standard.

The focus on rights at the period end makes it clear that preparers and auditors must only look at the documented rights that the entity has within its borrowing agreements at period end and not consider any arrangements that may have been customary hitherto, but are not actually supported by rights.

Question 2—Linking settlement with the outflow of resources
The IASB proposes making clear the link between the settlement of the liability and the outflow of resources from the entity by adding 'by the transfer to the counterparty of cash, equity instruments, other assets or services' to paragraph 69 of the Standard. Do you agree with that proposal? Why or why not?

We support the inclusion of the new sentence at the end of paragraph 69 clarifying what constitutes settlement of a liability and the fact that settlement requires an outflow of resources or the issue of new equity to replace the liability. Some practitioners seem to have been confused between settlement and roll over.

Question 3—Transition arrangements
The IASB proposes that the proposed amendments should be applied retrospectively. Do you agree with that proposal? Why or why not?

Because in our view the new wording does not change the requirements of the standard, but merely clarifies them, we support retrospective application.

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AASB Questions

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

   (a) not-for-profit entities; and

   (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

In our view the proposed changes merely clarify the existing requirements and therefore pose no issues for not-for-profits or public sector entities and have no cost/benefit implications. Keeping our standards consistent with those of the IASB is in the best interests of the Australian economy.

If you wish to discuss any of these matters further, please contact me at chris@westworthkemp.com.au.

Yours faithfully

Chris Westworth, LLB, FCA, FAICD

Stephanie Kemp MA, FCA