Accounting standards and interpretations for litigators

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Overview

In recent years there has been significant litigation against directors of an entity and its auditor where is claimed that the entity's financial report was not prepared in accordance with the relevant Australian Accounting Standards (AASBs) and the auditor issued an unqualified auditor's report on financial statements that were materially misstated.

Understanding which version of the AASB to apply

Each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act is required to comply with the applicable AASB.

The AASBs are regularly revised. Litigators should ensure that they have the appropriate version of the AASB applicable to the relevant reporting period. Previous versions of AASBs can be found on the Australian Accounting Standards Board's website.

Accounting Standards and Interpretations

Set out below are the accounting standards and interpretations issued by the Australian Accounting Standards Board relevant to audit litigation matters:

Standard	Key features	Relevance to litigation
AASB 2 Share-based Payment	AASB 2 requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. For transactions with suppliers, there is a rebuttable presumption that the fair value of goods or services received can be estimated reliably. Accordingly for transactions with parties other than employees, the value of equity-settled share-based payments is measured at the fair value of the goods or services received. The fair value of share-based payments granted to employees and directors are measured at the grant date without regard to service or performance conditions. The fair value is recognised as an expense over the service period. AASB 2 prohibits any subsequent adjustment to total equity after vesting date irrespective of events such as the forfeiture or non-exercise of options.	Entity's issuing shares or share options to employees or suppliers can result in material expenses being recorded in the income statement of those entities. Material misstatements can arise through: • Failing to recognise that a share-based payment transaction has occurred; • Undervaluing the share-based payment; • Incorrectly determining a cash settled share-based payment is an equity accounted share-based payment; • Incorrectly accounting for forfeitures and modifications to employee share plans.

Standard	Key features	Relevance to litigation
AASB 3 Business Combinations	A business combination is a transaction in which an acquirer obtains control or one or more businesses. AASB 3 establishes principles and requirements for how the acquirer: • recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. • recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and • determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. AASB 3 applies to transactions that meets the definition of a business combination. AASB 3 does not apply to: • the accounting for the formation of a joint arrangement; • the acquisition of an asset or a group of assets that does not constitute a business; or • a combination of entities or businesses under common control.	Material misstatements can arise in respect of a business combination as a result of: • Failing to recognise a business combination (i.e., accounting for a business combination as an asset acquisition); • Accounting for an asset acquisition as a business combination; • Incorrectly determining who the acquiror is (i.e., failing to identify a reverse acquisition); • Miscalculating the value of consideration (hence misstating goodwill); • Failing to identify the assets and liabilities acquired; • Incorrectly allocating value to the acquired assets and liabilities; and • Incorrectly accounting for deferred or contingent consideration.

Standard	Key features	Relevance to litigation
AASB 5 Non-current Assets Held for Sale and Discontinued Operations	AASB 5 requires an entity to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. AASB 5 requires: • assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, with depreciation on such assets to cease; and • assets that meet the criteria to be classified as held for sale be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.	AASB 5 excludes the results of discontinued operations, from presentation in an entity's results from continuing operations. Therefore, incorrectly excluding a loss-making operation from continuing operations presents an entity's results from continuing operations in a misleading manner. Material misstatements can arise as a result of: • Misclassification of a non-current asset or disposal group as held for sale when it is not highly probable that it will be sold; and • Overstating the value of assets held for sale and disposal groups.

Standard	Key features	Relevance to litigation
AASB 6 Exploration for and Evaluation of Mineral Resources	AASB 6 is an industry specific standard and contains special rules on when to test exploration and evaluation (E&E) assets for impairment. Entities are not allowed to apply AASB 6 to expenditures incurred: • before the exploration for and evaluation of mineral resources; or • after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. AASB 6 sets out circumstances that indicate that an entity should test exploration and evaluation assets for impairment: • the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed. • substantive expenditure on further E&E of mineral resources in the specific area is neither budgeted nor planned. • E&E activities have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and • although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered from successful development or by sale.	AASB 6 sets out very special rules that relax the requirements to impair E&E assets. Common errors arise from: • Capitalising expenditure before the entity has obtained the rights to explore the area of interest; • Incorrectly classifying expenditure as E&E when the expenditure is either in the pre-exploration phase or is in the development phase; • Not testing for impairment as the asset transitions from the exploration phase to the development phase; • Disregard the situations set out in AASB 6 which require the E&E expenditure to be impaired; • Using a unit of account that is larger than the area of interest; • Recognising development costs as E&E assets; and • Not recognising costs in respect of restoration following on from the E&E activity.

Standard	Key features	Relevance to litigation
AASB 7 Financial Instruments: Disclosures	IFRS 7 requires entities to provide disclosures in their financial statements that enable users to evaluate: • the significance of financial instruments for the entity's financial position and performance; and • the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. Financial instruments expose entities to the following risks: • credit risk; • liquidity risk; and • market risk. The qualitative disclosures required by AASB 7 describe management's objectives, policies, and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.	Many litigation matters involve a situation where the entity was adversely impacted by the risks associated with its financial assets and liabilities. Examples include: • A receivable or loan was not collected (credit risk); • The entity had to repay liabilities (liquidity risk); and • The entity's financial assets or liabilities were impacted by foreign exchange rates (market risk). In many cases if AASB 7 had been complied with, users of the financial report would have been properly informed of the entity's exposure to these risks.

<table>
<tr><th>Standard</th><th>Key features</th><th>Relevance to litigation</th></tr>
<tr><td>AASB 8 Operating Segments</td><td>AASB 8 requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

AASB 8 specifies how an entity should report information about its operating segments in annual financial statements and in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers.

An operating segment is a component of an entity:
• that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
• whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and
• for which discrete financial information is available.

AASB 8 only permits operating segments to be aggregated where specific aggregation criteria are met.</td><td>Failure to disclose segment information required by AASB 8 results in users not being provided with information to evaluate the nature and financial effects of the business activities in which it engages.

When a business has failed, or material impairment charges have been incurred it is often argued the users were misled because of the inadequate segment disclosure.

Common errors arise from:
• Operating segments have not been correctly identified;
• The CODM has not been correctly identified;
• Segments have been inappropriately aggregated; and
• Failure to disclose items that meet the quantitative thresholds in AASB 8.</td></tr>
</table>

Standard	Key features	Relevance to litigation
AASB 9 Financial Instruments	AASB 9 sets out that financial assets shall be classified as a financial asset measured at: • amortised cost • fair value through profit or loss; or • fair value through other comprehensive income. The classification being based on: • the business model for managing the financial assets; and • the contractual cash flow characteristics of the financial asset. An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured at amortised .at cost. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses An entity is required to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. AASB 9 sets out that financial liabilities shall be classified as either financial liabilities measured at: • amortised cost; or • fair value through profit or loss.	AASB 9 is a complex standard, and its application can cause a number of material errors. Material errors include: • Inadequate bad debt provisions for trade receivables; • Inadequate provisioning for loans for financial institutions; • Inadequate provisions for loans to related parties and associates; • Recording a financial asset or liability at amortised cost that should be measured at fair value; • Incorrect determination of a financial instrument's fair value; • Inappropriate use of hedge accounting; • Incorrectly derecognising a financial asset or liability; • Not recording a credit loss for loan commitments or financial guarantees. AASB 9 requires a number of financial instruments, (assets and liabilities) to be recorded at fair value using AASB 13. Errors in determining fair value result in a breach of both AASB 9 and AASB 13.

Standard	Key features	Relevance to litigation
AASB 10 Consolidated Financial Statements	Parent entities (investors) that control subsidiaries (investees) are required to prepare consolidated financial statements. AAAB 10 sets out that an investor controls an investee if and only if the investor has all the following: • power over the investee; • exposure, or rights, to variable returns from its involvement with the investee; and • the ability to use its power over the investee to affect the amount of the investor's returns. In determining whether an entity controls another AASB 10 requires consideration of: • The purpose and design of the investee; • The relevant activities of the investee; • How decisions are made about those relevant activities; • Whether the investor has the ability to direct the relevant activities of the investee; • Whether the investor is exposed, or has rights, to variable returns from its involvement with the investee; and • Whether the investor has the ability to use its power to affect the amount of the investor's returns. Decisions on relevant activities include: • appointing an investees directors and management; and • operating and capital budgets and decisions.	AASB 10 sets out very specific rules of which entities are required to be consolidated. Incorrectly applying AASB 10 can cause very material misstatements by either: • Failing to consolidate a subsidiary (e.g., where the entity has an interest in or transactions with a structured entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity); or • Incorrectly consolidating an entity that is not controlled.

Standard	Key features	Relevance to litigation
AASB 11 Joint Arrangements	A joint arrangement is a contractual agreement that gives two or more parties joint control. AASB 11 requires the classification of joint arrangements in which the investee has joint control as either joint operations or joint ventures. A joint operator recognises in relation to its interest in a joint operation (proportionate consolidated accounting): • Its assets, including its share of assets jointly held; • Its liabilities, including its share of any liabilities incurred jointly; • Its revenue from the sale of its share of the output arising from the joint operation; and • Its expenses, including its share of any expenses incurred jointly. AASB 11 requires that a joint venturer recognises its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with AASB 128 Investments in Associates and Joint Ventures. There may be parties who are investees in a joint arrangement, but do not themselves have joint control of the joint arrangement. The investee is required to determine whether they have significant influence in accordance with AASB 128 or if not account for the financial asset in accordance with AASB 9.	Application of AASB 11 can be complex in determining the economic substance of joint arrangements and whether an investor has joint control over an interest in a joint venture or joint operation. Incorrectly applying AASB 11 can cause material misstatements where an investor fails to: • proportionately consolidate an investment in a joint operation in which it has joint control; and • equity account an investment in a joint venture in which it has joint control. Failure to correctly account for interests in joint arrangements where an investor has joint control can result in a material misstatement by accounting for the investment at fair value by incorrectly applying AASB 9.

Standard	Key features	Relevance to litigation
AASB 12 Disclosure of Interests in Other Entities	AASB 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance, and cash flows. AASB 12 is required to applied by an entity that has an interest in: • subsidiaries • joint arrangements (i.e., joint operations or joint ventures) • associates • unconsolidated structured entities. AASB 12 requires disclosure of significant judgements made in determining: • Control over another entity; • Joint control over an arrangement; and • Significant influence over another entity. In relation to unconsolidated structured entities, AASB 12 requires disclosure of the nature, purpose, size, and activities of the structured entity and how the structured entity is financed.	Where an accounting failure involves the failure of an entity's investment another entity (e.g., a joint arrangement, structured entity or an associate), failure to appropriately disclose information about that entity can lead to the claim that investors were misled or misinformed.

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<table>
<tr><th>Standard</th><th>Key features</th><th>Relevance to litigation</th></tr>
<tr><td>AASB 13 Fair Value Measurement</td><td>AASB 13 applies when another AASB requires or permits fair value measurement (both initial and subsequent) or disclosures about fair value measurements.

When measuring fair value an entity is required to take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include:
• the condition and location of the asset; and
• restrictions, if any, on the sale or use of the asset

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

AASB 13 establishes a fair value fair value hierarchy for determining the fair value of assets and liabilities:
• Level 1: Observable quoted prices in an active market;
• Level 2: Quoted prices are not available but fair value is based on observable market data;
• Level 3: Unobservable inputs.</td><td>Application of AASB 13 is relevant to the application of:
• AASB 3
• AASB 9
• AASB 136
• AASB 139
• AASB 140
• AASB 141

Consequently, incorrectly determining the fair value of an asset or liability can result in the misstatement of:
• Investments in shares
• Investment properties
• Biological assets
• Financial assets and liabilities
• Determining the recoverable amount of assets in impairment testing

The risk of material misstatement is much higher when Level 3 inputs are used to determine fair values as this will be based upon judgement and inputs that may be subject to management bias.</td></tr>
</table>

Standard	Key features	Relevance to litigation
AASB 15 Revenue from Contracts with Customers	AASB 15 applies to all contracts with customers for the provision of goods or services. AASB 15 sets out that an entity shall account for a contract with a customer when all: • the parties to the contract have approved the contract and are committed to perform their respective obligations; • the entity can identify each party's rights regarding the goods or services to be transferred; • the entity can identify the payment terms; • the contract has commercial substance; and • it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For each performance obligation satisfied over time, an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. An entity shall include in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.	AAAB 15 introduced significantly stricter criteria for recognising revenue than the standards it replaced (AASB 111 and AASB 118). Material misstatements will arise when revenue is: • recognised when it is not highly probable that the revenue will not be reversed (the reversal constraint); • incorrectly grossed up by ignoring payments made to the customer; • incorrectly grossed up by ignoring rebates to customers or staged pricing arrangements; • recognised before performance obligations have been satisfied; and • recognised before the entity has transferred control of the asset to a customer. Results in an overstatement of: • Assets; • Revenue; • Profit; and • EPS.

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Standard	Key features	Relevance to litigation
AASB 16 Leases	AASB 16 requires an entity at inception of a contract, to assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability for the unpaid portion of payments discounted at the rate implicit in the lease. AASB 16 requires extensive disclosures including: • qualitative information on the lessee's leasing activities and the rights and obligations arising from its major lease contracts; and • quantitative disclosures on lease commitments, variable lease payments, extension and termination options, and residual value guarantees. AASB 16 allows an exemption from the application of lease accounting for lessees in relation to leases for low value items (generally accepted as US$5,000 when new) and leases with a term of 12 months or less.	AASB 16 requires entities to recognise a right of use asset and a corresponding lease liability for assets it has the right to control under a leasing arrangement. Material misstatements can arise by: • Failing to identify assts that are within the scope of AASB 16; • Incorrectly determining an arrangement is a lease, in the meaning of a lease set out in AASB 16; • Incorrectly determining the term of the lease; • Incorrectly calculating the right of use asset or lease liability; and • Failure to account for changes in lease payments as a lease modification.

Standard	Key features	Relevance to litigation
AASB 101 Presentation of Financial Statements	AASB 101 deals with the presentation of financial statements, it sets out that: • information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions made by users of the financial statements; • financial statements should be prepared on a going concern basis unless management either intends to cease trading • where there is doubt about the entity's ability to continue as a going concern, the entity is required to disclose those uncertainties. An entity classifies a liability as current when: • it expects to settle the liability in its normal operating cycle; • it holds the liability primarily for the purpose of trading; • the liability is due to be settled within twelve months after the reporting period; or • it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. An entity is required to disclose, along with its significant accounting policies or other notes, the key estimates and judgements management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.	Material misstatements in financial reports can occur through: • Failing to disclose that a material uncertainty exists as to the entity's ability to continue as a going concern; • Incorrectly presenting a current liability as a non-current liability; • Failing to disclose key judgements in applying the entity's accounting policies; and • Failing to disclose key sources of estimation uncertainty.

Standard	Key features	Relevance to litigation
AASB 102 Inventories	AASB 102 requires an entity to measure its inventories at the lower of cost and net realisable value. This is an implicit impairment test and as a consequence, inventories are excluded from the scope of AASB 136. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition less volume rebates received from the supplier. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are: • abnormal amounts of wasted materials, labour, or other production costs; • storage costs, unless those costs are necessary in the production process before a further production stage; • administrative overheads that do not contribute to bringing inventories to their present location and condition; and • selling costs.	A basic concept of overstating an entity's performance is to overstate the value of an entity's assets, this includes an entity's inventory. Material overstatement can arise from: • Not writing down the inventory down to its net realisable value (NRV) for inventory that will not be sold or will be sold for an amount that is below its carrying amount; • Capitalising ineligible costs in inventory; and • Not reducing the value of inventory for rebates received or receivable from the supplier for purchasing that inventory. These errors result in an understatement of expenses and an overstatement of: • Assets; • Profit; and • EPS.

Standard	Key features	Relevance to litigation
AASB 107 Statement of Cash Flows	AASB 107 requires an entity to prepare a statement of cash flows and present it as an integral part of its financial statements. Cashflows are disclosed from: • Operating activities, being the principal revenue-producing activities of the entity and other activities that are not investing or financing activities; • Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. • Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. Non-cash investing and financing activities must be disclosed separately.	A key metric for measuring the performance of an entity is the amount of positive operating cashflows generated by the entity. Consequently, material misstatements from the application of AASB 107 usually involve: • Classifying operating cash outflows as investing cash outflows; or • Classifying financing and investing cash inflows as operating cash inflows.

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<table>
<tr><th>Standard</th><th>Key features</th><th>Relevance to litigation</th></tr>
<tr><td>AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors</td><td>AASB 108 applies in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

In the absence of an Australian Accounting Standard that specifically applies to a transaction, management is required to use its judgement in developing and applying an accounting policy.

An entity is only permitted to change an accounting policy only if the change:
is required by an Australian Accounting Standard; or
results in the financial statements providing reliable and more relevant information about the effects of transactions.
An entity is required to disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

Prior period errors are misstatements in an entity's financial statements for one or more prior periods. AASB 108 requires that prior period errors are corrected retrospectively with comparatives being restated. Extensive disclosures are required in relation to prior period errors.</td><td>Errors in application of AASB 108 can result in:
Failure to apply accounting policies that are relevant and reliable;
Changing an accounting policy to one which is less relevant and reliable than the accounting policy previously adopted by the entity (e.g., moving from an accounting policy where all exploration expenditure is expensed, to one of capitalising exploration expenditure);
Not disclosing the impact of changes in accounting estimates;
Prior year errors being corrected in the current period rather than by restating comparatives; and
Failure to appropriately disclose the impact of prior period errors on each line item affected and the entity's restated EPS.</td></tr>
</table>

Standard	Key features	Relevance to litigation
AASB 110 Events after the Reporting Period	Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. AASB 110 distinguishes between those events: • that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period) which are to be recognised in the financial statements; and • that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period) requiring disclosure in the financial report. Examples of adjusting events after the reporting period include: • the settlement after the reporting period of a court case that confirms the entity's obligation at the reporting date; • information after the reporting period indicating that an asset was impaired at the reporting date; • the discovery of fraud or errors that show that the financial statements are incorrect. ASSB 110 sets out that deterioration in operating results and financial position after the reporting period may indicate that the going concern assumption is no longer appropriate and may result in a change in the basis of accounting, rather than an adjustment to the amounts recognised in the financial report.	Errors in the application of AASB 110 can result in: • Failing to adjust for adjusting events; • Failing to disclose non adjusting events; and • Failing to identify that the going concern basis is no longer appropriate.

Standard	Key features	Relevance to litigation
AASB 111 Construction Contracts (Superseded by AASB 15 for for-profit entities for periods beginning on or after 1 January 2018)	AASB 111 applied to in accounting for revenue earned from construction contracts by contractors prior to the adoption of AASB 15. Contract revenue comprises: • the initial amount of revenue agreed in the contract; and • variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue. Contract costs comprises: • costs that relate directly to the specific contract; • costs that are attributable to contract activity and can be allocated to the contract; and • costs specifically chargeable to the customer under the terms of the contract. Costs that cannot be attributed to contract activity are excluded from the costs of a construction contract. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract. An expected loss on the construction contract shall be recognised as an expense immediately. When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately.	AASB 111 required the application of the percentage of completion (POC) to recognise revenue and profit for construction contracts. Use of the POC method can result in material misstatements due to inappropriately estimating the following: • Total revenue that will be earnt on the contract; and • Total costs to complete the contract. The reason for these errors arising include: • Overestimating revenue by recognising variances that have not been agreed with the customer; • Incomplete design; • Not having firm tenders and quotes for the costs to complete the contract; • Failure to consider the impact of delays;and • Failure to take into account the likelihood that the project will incur liquidated damages due to failure to deliver the project on time.

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Standard	Key features	Relevance to litigation
AASB 112 Income Taxes	A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: • the initial recognition of goodwill; or • the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.	Material errors in the application of AASB 112 can occur can arise through: • Recognising a deferred tax asset for carried forward tax losses when it is not probable that entity will make future taxable profits; and • Failing to recognise the impact of breaching tax legislation (i.e., transfer pricing or claiming ineligible tax deductions.

<table>
<tr><th>Standard</th><th>Key features</th><th>Relevance to litigation</th></tr>
<tr>
<td>AASB 116 Property, Plant and Equipment</td>
<td>Property, plant and equipment (PP&E) are assets that:

• are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
• are expected to be used during more than one period.

The costs of the day-to-day servicing (being repairs and maintenance) of PP&E are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables and may include the cost of small parts.

PP&E is initially measured at cost. Cost includes:

• the purchase price plus import duties and taxes;
• costs directly attributable to bringing the asset to the location and condition for it to operate as intended; and
• restoration costs.

Property, plant and equipment (other than land) is required to be depreciated over the asset's useful life. The depreciation method reflects the pattern in which the economic benefits derived from the use of the asset are to be consumed.

AASB 16 permits PPE to be subsequently measured using the:

• Cost Model or
• Revaluation model</td>
<td>Material errors in the application of AASB 116 can occur can arise through:

• In correct capitalisation of costs that should have been expensed;
• Capitalising the repair and maintenance costs;
• Using the incorrect unit of account for determining the application of a depreciation rate;
• Using an inappropriate depreciation method that does not reflect the consumption of benefits derived from the asset; and
• Inappropriate assessment of the useful life of the asset (e.g., depreciating a mining plant over a period which is greater than the life of the mine).

Results in an overstatement of:

• Assets
• Profit
• EPS

Results in an understatement of expenses.</td>
</tr>
</table>

<table>
<tr><th>Standard</th><th>Key features</th><th>Relevance to litigation</th></tr>
<tr><td>AASB 118 Revenue (superseded by AASB 15 for for-profit entities for periods beginning on or after 1 January 2018)</td><td>AASB 118 applied to the accounting for revenue arising from the following transactions and events:
the sale of goods;
the rendering of services; and
the use by others of entity assets yielding interest, royalties and dividends.
AASB 118 set out that revenue is required to be measured at the fair value of the consideration received or receivable.

Revenue (in accordance with AASB 118) should be recognised when all the following conditions have been met:
The significant risks and rewards of ownership of goods have been transferred to the buyer;
Services have been provided to the customer;
The seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
The amount of revenue can be measured reliably; and
It is probable that the economic benefits associated with the transaction will flow to the seller.</td><td>Revenue recognition by applying AASB 118 is relevant in material misstatements and hence auditor litigation, the common areas of misapplication being:
the entity has NOT transferred to the buyer the significant risks and rewards of ownership of the goods;
the entity retains continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
it is not probable that the economic benefits associated with the transaction will flow to the entity;
the stage of completion of the transaction at the end of the reporting period cannot be measured reliably; and
the costs incurred for the transaction and the costs to complete the transaction cannot be measured reliably.</td></tr>
</table>

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Standard	Key features	Relevance to litigation
AASB 119 Employee Benefits	AASB 119 requires an entity to recognise: • a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and • an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits. Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services: • wages, salaries and social security contributions; • paid annual leave and paid sick leave; • profit-sharing and bonuses; and • non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees. An entity shall recognise the expected cost of profit-sharing and bonus payments when the entity has a present legal or constructive obligation to make such payments as a result of past events. Where an entity contributes to a defined benefit plan for employees the entity is required to recognise the net defined benefit liability (or asset) in its statement of financial position.	Material errors in the application of AASB 116 can occur can arise through: • Failing to recognise leave entitlements appropriately; and • Errors in determining obligations under defined benefit retirement plans.

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Standard	Key features	Relevance to litigation
AASB 120 Accounting for Government Grants and Disclosure of Government Assistance	AASB 120 is required to be applied in the accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance. Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that: • the entity will comply with the conditions attaching to them; and • the grants will be received. Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises the related costs for which the grants are intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable. A grant relating to assets may be presented in one of two ways: • As deferred income (and released to profit or loss when the related expenditure impacts profit or loss); or • By deducting the grant from the asset's carrying amount.	Material errors in the application of AASB 120 can occur can arise through: • Recognising capital grants as revenue grants (i.e., recognising income immediately rather than deferring the income until asset for which the grant funding was provided was completed); • Recognising a grant when the conditions for receiving the grant have not been satisfied; and • Recognising income as grant income rather than as an income tax credit.

Standard	Key features	Relevance to litigation
AASB 121 The Effects of Changes in Foreign Exchange Rates	AASB 121 is required to be applied in accounting for: • transactions and balances in foreign currencies; • translation of the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method; and • translation of an entity's results and financial position into a presentation currency. Functional currency is the currency of the primary economic environment in which the entity operates. When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables. In the consolidated financial statements, when the foreign operation is a subsidiary, such exchange differences are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the subsidiary.	Material errors in the application of AASB 121 can occur can arise through: • Applying the incorrect functional currency • Incorrectly changing a functional currency • Incorrectly taking a foreign exchange loss to a foreign exchange reserve (equity) rather than to the income statement • No recycling the foreign exchange reserve to the income statement when a foreign subsidiary is disposed of.

<table>
<tr><th>Standard</th><th>Key features</th><th>Relevance to litigation</th></tr>
<tr><td>AASB 123 Borrowing Costs</td><td>AASB 123 uses the following terms with the meanings specified:
Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.
A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
Where an entity borrows funds for the purpose of obtaining a qualifying asset, the entity shall capitalise the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:
it incurs expenditures for the asset;
it incurs borrowing costs; and
it undertakes activities that are necessary to prepare the asset for its intended use or sale.
An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.</td><td>Material errors in the application of AASB 123 can occur can arise through:
Capitalising interest when the asset is not a qualifying asset;
Capitalising interest when the asset is not being actively developed; and
Capitalising interest after the asset is ready for use.</td></tr>
</table>

Standard	Key features	Relevance to litigation
AASB 124 Related Party Disclosures	The objective of AASB 124 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. AASB 124 is to be applied in: • identifying related party relationships and transactions; • identifying outstanding balances, including commitments, between an entity and its related parties; • determining the disclosures to be made about those items. If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. An entity shall disclose key management personnel compensation in total and for each of the following categories: • short-term employee benefits; • post-employment benefits; • other long-term benefits; • termination benefits; and • share-based payment.	Material errors in the application of AASB 124 can occur can arise through: • Failing to disclose related party transactions; • Inaccurate and misstatement of transactions and related parties; and • Incorrectly stating the transactions were arm's length and on normal commercial terms.

Standard	Key features	Relevance to litigation
AASB 128 Investments in Associates and Joint Venture	AASB 128 is required to be applied by all entities that are investors with joint control of, or significant influence over, an investee. AASB 128 prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. A joint arrangement is an arrangement of which two or more parties have joint control. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss, and the investor's other comprehensive income including its share of the investee's other comprehensive income. The disclosure requirements for investments in associates and joint ventures are provided in AASB 12.	Errors in application of AASB 128 include: • Failure to identify which entities are required to be equity accounted (incorrect application of AASB 128, AASB 10 and 11); • Failure to recognise an impairment loss on an investment in an associate; • Failure to correctly apply equity accounting; and • Accounting for loans to associates in accordance with AASB 128 rather than AASB 9.

Standard	Key features	Relevance to litigation
AASB 132 Financial Instruments: Presentation	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. AASB 132 requires that the issuer of a financial instrument to classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. A financial asset is any asset that is: • cash; • an equity instrument of another entity; • a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or • a contract that will or may be settled in the entity's own equity instruments. A financial liability is any liability that is a contractual obligation: • to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or • a contract that will or may be settled in the entity's own equity instruments.	The classification of financial instruments and their subsequent accounting is complex and an area of accounting estimation and judgement. Misapplication of AASB 132 is a common area of alleged misstatement. If an entity wrongly concludes it has issued an equity instrument or a compound financial instrument and the instrument fails the "fixed for fixed' test, the resulting material misstatements include: • Failing to fair value a derivative liability; • Capitalising the costs of issuing the instrument rather than expensing those costs; • Overstating equity; and • Understating debt and liabilities.

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<table>
<tr><th>Standard</th><th>Key features</th><th>Relevance to litigation</th></tr>
<tr><td>AASB 136 Impairment of Assets</td><td>An entity is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired. Where an indicator exists, the entity is required to determine the recoverable amount of the asset.

External sources of information indicating asset impairment:

• Significant decline in market value
• Changes in the technological, market, economic or legal environment;
• Changes in interest rates;
• The carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information indicating asset impairment:

• Evidence of obsolescence or physical damage of an asset;
• Significant changes with an adverse effect on the entity have taken place during the period; and
• Declining asset performance.

Annual impairment testing is compulsory for intangible assets with an indefinite useful life or an intangible asset not yet available for use and cash generating units to which goodwill has been allocated. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. If such an intangible asset or goodwill was recognised in the current annual period, that asset is to be tested for impairment before the end of the current annual period.</td><td>Misapplication of AASB 136 is a common area of alleged misstatement.

Errors in application of AASB 136 include:

• Failing to test an asset for impairment when an impairment event had occurred;
• Not testing goodwill for impairment arising on acquisitions occurring in the current year;
• The recoverable amount being determined incorrectly;
• The assumptions in the forecast cashflows used to determine the value in use recoverable amount not being reasonable or supportable;
• The forecast cashflows used to determine the value in use recoverable amount do not reflect the asset in its current state; and
• The discount rate used to determine the value in use recoverable does not reflect the risk of those forecast cashflows not being achieved.</td></tr>
</table>

Standard	Key features	Relevance to litigation

AASB 137 Provisions, Contingent Liabilities and Contingent Assets	A provision is required to be recognised when:
	• an entity has a present obligation (legal or constructive) as a result of a past event;
	• it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
	• a reliable estimate can be made of the amount of the obligation.
	If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.
	A constructive obligation to restructure arises only when an entity has a detailed formal plan for the restructure and has raised a valid expectation in those affected (generally employees) that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.
	Contingent liabilities and contingent assets:
	• An entity shall not recognise a contingent liability but is required to provide disclosure of the possible obligation that may arise from past events.
	• An entity shall not recognise a contingent asset but is required to provide disclosure of the possible asset that may arise from past events.
		Errors in applying AASB 137 that can give rise to a material misstatement include:
		• Failing to recognise a provision for:
		  ▪ Restoration;
		  ▪ Environmental contamination;
		  ▪ Purchases of goods and services;
		  ▪ Legal costs; and
		  ▪ Claims and litigation where it is probable that a loss will be incurred, and that loss is measurable.
		• Recognising a contingent asset.
		• Failing to recognise an onerous contract.
		• Wrongly determining that a restructuring provision should be recognised.

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Standard	Key features	Relevance to litigation
AASB 138 Intangible Assets	AASB 138 includes the following defined terms: • Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use; • Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. An intangible asset shall be recognised if, and only if: • it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and • the cost of the asset can be measured reliably. Examples of expenditures that are not part of the cost of an intangible asset are: • costs of introducing a new product or service (including costs of advertising and promotional activities); • costs of conducting business in a new location or with a new class of customer (including costs of staff training); and • administration and other general overhead costs. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.	Errors in application of AASB 138 include capitalising of costs that should be expensed when incurred which include incorrectly capitalising: • research costs; • advertising and marketing costs; • the costs of training a work force; • the costs of hiring a work force; and • costs that are not directly related to the acquisition of the intangible asset.

Standard	Key features	Relevance to litigation
AASB 139 Financial Instruments: Recognition and Measurement (superseded by AASB 9 for periods beginning on or after 1 January 2018)	AASB 139 providing accounting for financial instruments, classifying them within the following categories: • A financial asset or financial liability at fair value through profit or loss; • Held-to-maturity investments, carried at amortised cost; • Loans and receivables, carried at amortised cost; • Available-for-sale financial assets, carried at fair value through an available for sale reserve account in equity. AASB 139 applied the incurred loss impairment model which required an entity to assess at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Application of he incurred loss model resulted in losses being recognised at a later date than those under AASB 9 (the expected loss model). AASB 139 set out detailed guidance when a financial asset or financial liability could be derecognised. AASB 139 set out detailed guidance when hedge accounting could be applied.	Accounting for financial instruments is a complex area. Material misstatements from the incorrect application of AASB 139 include: • Failing to impair a loan or receivable; • Failing to impair an investment in equity instruments; • Incorrectly derecognising a financial asset; and • Incorrectly applying hedge accounting when the prescriptive rules for application of hedge accounting were not met.

Standard	Key features	Relevance to litigation
AASB 140 Investment Property	AASB 140 applies to the recognition, measurement, and disclosure of investment property. Investment property is defined as: property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for: • use in the production or supply of goods or services or for administrative purposes; or • sale in the ordinary course of business. An owned investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of an investment property is not increased by start-up costs or operating losses incurred before the investment property achieves the planned level of occupancy. AASB 140 permits an entity to measure the investment properties subsequent to acquisition applying either: • the fair value model; or • the cost model. A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.	Material errors in application of AASB 140 include: • Incorrect classification of owner-occupied property as investment property rather than PPE; • Incorrect classification inventory (properties in the course of construction) as investment property rather than inventory; • Incorrectly recognising a fair value gain in the income statement when an owner-occupied property is transferred to investment property; and • Incorrect determination of the investment property's fair value in accordance with AASB 13.

Standard	Key features	Relevance to litigation
AASB 141 Agriculture	AASB 141 is to be applied to account for the following when they relate to agricultural activity: • biological assets, except for bearer plants; • agricultural produce at the point of harvest; and • government grants related to a biological asset. A biological asset is required to be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for where the fair value cannot be measured reliably. Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying AASB 102 Inventories. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises. There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and impairment losses.	AASB 141 requires non bearer biological assets to be recorded at fair value, hence material misstatements occur when those assets are not correctly fair valued in accordance with AASB 13.

Title	Key features	Relevance to litigation
Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for as follows: • changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period; • the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss; and • if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with AASB 136.	Errors that can arise from not applying Interpretation 1 correctly include: • Recording increases in the restoration liability to the income statement rather than the asset; and • Failing to test the increased value asset for impairment.

Title	Key features	Relevance to litigation
Interpretation 12 Service Concession Arrangements	Interpretation 12 provides guidance on the accounting by operators for public-to-private service concession arrangements. Interpretation 12 applies to public-to-private service concession arrangements if: • the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and • the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement. Infrastructure within the scope of this Interpretation shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract. If the operator provides construction or upgrade services, the consideration received or receivable by the operator shall be recognised in accordance with AASB 15. The consideration may be rights to a financial asset or an intangible asset.	Material misstatements can arise where an operator of equipment that is subject to a service concession (e.g., toll roads, public housing, trains etc) fails to apply Interpretation 12 and recognises the asset as property plant or equipment rather than as a financial asset (the right to receive monies from the government) or an intangible asset (the right to collect tolls or a license).

Title	Key features	Relevance to litigation
Interpretation 17 Distributions of Non-cash Assets to Owners	When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. When to recognise a dividend payable When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. Measurement of a dividend payable An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution. When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.	Material errors can occur when entities are distributing Non-cash Assets to Owners and fails to apply Interpretation 17. Errors can include: • Not recognising a liability to distribute the non-current assets; • Not recording the liability at fair value; and • Not recognising the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Title	Key features	Relevance to litigation
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	A debtor and creditor might renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor. These transactions are sometimes referred to as ‘debt for equity swaps’. The issue of an entity’s equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 3.3.3 of AASB 9. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 3.3.1 of AASB 9. When equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 3.3.3 of AASB 9. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished.	Material issues can arise when an entity extinguishes financial liabilities with equity instruments and fails to correctly determine whether the equity instrument can be reliability measured. Such an error will result in a misstatement of the profit and loss impact of the extinguishment and of the equity instruments issued.

Title	Key features	Relevance to litigation
Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	Interpretation 20 provides guidance on the accounting for stripping costs incurred in the production phase of a surface mine. In developing the Interpretation, the Committee decided to focus only on surface mining activities and not on underground mining activities. This Interpretation applies to the activity of surface mining and therefore to all types of natural resources that are extracted using this process. The Interpretations Committee decided that an entity may create two benefits by undertaking stripping activity (and incurring stripping costs). These benefits are the extraction of the ore in the current period and improved access to the ore body for a future period. The result of this is that the activity creates an inventory asset and a non-current asset. The Interpretation's Committee decided to require an allocation approach that was based on a relevant production measure, to allocate costs between the improved mine asset (accounted for under AASB 116) and the inventory produced (accounted for under AASB 102). The interpretations Committee decided that the cost of the stripping activity asset should be depreciated or amortised over the expected useful life of the identified component of the ore body that is made more accessible by the activity, on a basis that best reflects the consumption of economic benefits.	Material errors can occur thorough: • Not reasonably allocating the cost of stripping between inventory and the capitalised stripping costs; and • Not depreciating the capitalised stripping costs over the appropriate orebody that has been enhanced by the stripping.

Title	Key features	Relevance to litigation
Interpretation 22 Foreign Currency Transactions and Advance Consideration	When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or income (e.g., prepaid inventory or prepaid plant and equipment). The related asset, expense or income (or part of it) is the amount recognised applying relevant Standards, (AASB 102 for inventory and AASB 116 for plant and equipment). Interpretation 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Interpretations Committee determined that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.	Material misstatements may arise when an entity enters into transactions for prepayments of goods or services in a foreign currency and incorrectly revalues the non-monetary item for movements in the exchange rate.

Title	Key features	Relevance to litigation
Interpretation 23 Uncertainty over Income Tax Treatments	It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect an entity's accounting for a current or deferred tax asset or liability. Interpretation 23 clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying Interpretation 23. In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity is required to assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.	A material misstatement can arise through not correctly applying Int 23 and an investigation by a tax authority results in a material tax charge that the entity had not recognised.

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Basford Consulting Litigation Support Services

The team at Basford Consulting have prepared numerous expert reports for use in court proceedings dealing with the application of accounting and auditing standards. We provide independent expert evidence drawing from our considerable experience in providing technical accounting, auditing and governance solutions for clients.

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