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Accounting Profession in Australia, Second Edition Revised; Professional Accounting in Foreign Country Series

Pannell Kerr Forster

The Accounting Profession in Australia Second Edition, Revised

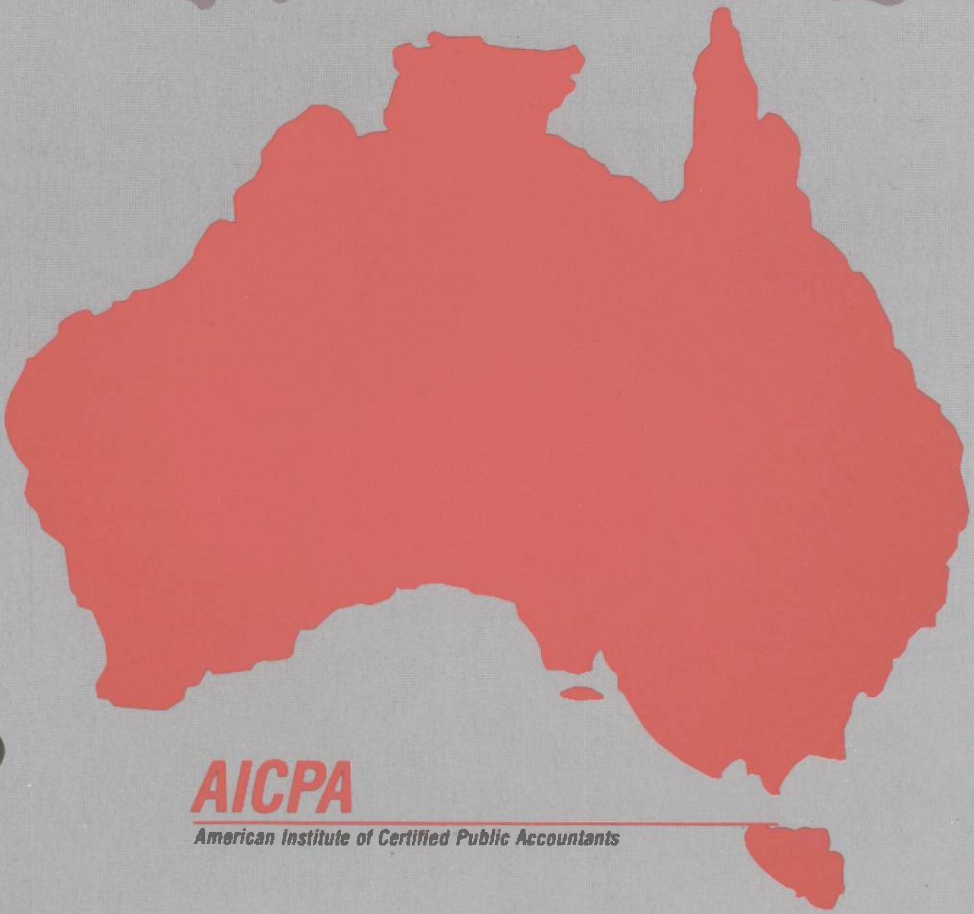
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

AICPA

SECOND EDITION, REVISED

The Accounting Profession in Australia

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA
American Institute of Certified Public Accountants

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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SECOND EDITION, REVISED

The Accounting Profession in Australia

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

Pannell Kerr Forster

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of April 1993. Changes after this date in the standards of either the United States or Australia may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Australia. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Australian auditing standards and accounting principles with those generally accepted in the United States are included as appendices to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Australia but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson
Vice President—Technical
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1

The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The Institute of Chartered Accountants in Australia (the "Institute") and the Australian Society of Certified Practicing Accountants (the "Society") are the national bodies representing the accounting profession in Australia. These bodies regulate the conduct of their respective members, issue and revoke practice certificates, and administer national examinations for membership; they can be reached at the following addresses:

Institute of Chartered Accountants in Australia
37 York Street
Sydney NSW 2000

Australian Society of Certified Practicing Accountants
Accountants House
170 Queen Street
Melbourne, Victoria 3000

Subject to certain exceptions, all companies are required under the Corporations Law to appoint an auditor to audit their financial statements* annually.

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*The Australian professional literature and legislation use the term *accounts.* Accounts incorporate balance sheets, profit-and-loss accounts (i.e., statement of income and retained earnings), and statement of cash flows and include a directors' statement and notes to the balance sheet and profit-and-loss accounts. In this booklet *accounts* has been replaced by the term *financial statements.*

2. The auditor must be a registered company auditor. To qualify for registration, an auditor must—

a. Satisfy the Australian Securities Commission (the "Commission") that he or she is a fit and proper person and is capable of performing the duties of an auditor.

b. Have sufficient practical experience in auditing.

c. Either 1) hold an appropriate degree or diploma from a prescribed institution in Australia and be a member of the Institute or the Society or 2) have other qualifications and experience that are considered by the Commission to be equivalent to the above qualifications.

Foreign Reciprocity

3. The Institute and the Society generally offer membership to the members of recognized overseas accounting bodies (for example, members of the American Institute of Certified Public Accountants [AICPA] and persons who have been granted CPA status by a legally constituted state of authority in the United States) provided that the applicant—

a. Can demonstrate suitable educational qualifications and work experience.

b. Completes an approved course in Australian company and taxation laws and any other program required by the Institute or the Society.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

4. The Institute and the Society have jointly established the Australian Accounting Research Foundation (AARF). Within the foundation are the Public Sector Accounting Standards Board (PSASB), the Auditing Standards Board, and the Legislative Review Board. AARF also acts as the Secretariat to the Australian Accounting Standards Board (AASB).

5. The Australian government has established the AASB as a statutory body under the Australian Securities Commission Act of 1989 to review existing and proposed accounting standards and approve those standards it considers appropriate. An accounting standard issued by the AASB becomes law under the Corporations Law.

6. Compliance with accounting standards issued by the AASB is mandatory for all financial statements prepared under the Corporations Law. Additional accounting standards for noncorporate entities are prepared by the AARF and issued by the accounting organizations.

7. Members of the Australian Accounting Bodies are required to comply with AASB accounting standards for companies (AASBs) and with Australian Accounting Standards (AASs) for noncorporate entities. The two sets of standards contain nearly identical requirements.

8. In addition to Accounting Standards, Statements of Accounting Concepts are issued by AARF and the AASB. Concepts Statements describe the circumstances in which general-purpose financial reports are to be prepared and the concepts to be followed in the preparation and presentation of general-purpose financial reports. They define the nature, subject, purpose, and broad content of general-purpose financial reporting.

9. Concepts Statements are mandatory for members of the Australian accounting profession. It is considered that application of Concepts Statements and Accounting Standards will result in general-purpose financial reports that present a "true and fair view" of a reporting entity's performance, financial position, and financing and investing.

Ethics Requirements

10. All chartered accountants (members of the Institute) and members of the Society are required to maintain the highest standards of professional conduct. The ethics rulings of the Institute and the Society are based on principles that are quite similar to the AICPA Code of Professional Conduct and cover such areas as integrity, objectivity, independence, confidentiality, technical standards, professional competence, and behavior.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

11. A person applying for associate membership in the Institute must be at least twenty-one years old, have passed the prescribed examinations, and have completed a three-year service period in full-time employment with a member of the Institute. The Society has similar requirements for admission.

12. A member in practice is required to maintain a valid practicing certificate by satisfying the established continuing professional education requirements and by paying prescribed annual fees and dues.

Rights of Membership

13. Members of the Institute or the Society have the right to use the designation applicable to their status. For example, members of the Institute may use the designation "Chartered Accountant" and, depending on their level of experience, may use the initials ACA (Associate Chartered Accountant) or FCA (Fellow Chartered Accountant). Members may apply for advancement in status (for example, to become a Fellow of the Institute or the Society). Members also receive notices of meetings and vote at such meetings on issues concerning the profession, comment on the standards of practice proposed for adoption, and practice in any state or territory regardless of where their application was made and approved.

Number of Members

14. As of December 31, 1992, the number of members of the Institute and the Society was 23,389 and 65,539, respectively. Many accountants are members of both organizations.

CPE Requirements

15. Members of both accounting bodies have a duty to maintain a high level of professional knowledge and skill throughout their professional careers. They are obliged to undertake continuing

professional education on matters appropriate to their field of practice; for example, members of the Institute must complete a minimum of forty hours of CPE each year and twenty of those hours must be "structured CPE." Structured CPE consists of formal courses conducted by various authorized organizations and includes in-house seminars. Members are required to keep personal records of CPE attendance and provide a signed statement at the time of their annual subscription payment. Failure to comply with CPE requirements may result in membership revocation.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

16. Statement of Auditing Standards (AUS) 1 prescribes the standards applicable to all audits undertaken by members of the two accounting bodies. The primary objective of the normal company audit is the expression of an independent professional opinion on the truth and fairness of the financial statements presented to shareholders. The auditor is concerned with the adequacy of the underlying records and with the detection of major distortions in the financial statements arising from inappropriate or biased use of accounting standards or methods. To provide a sound basis for his or her opinion, the auditor examines the credibility of the representations made by the directors in the financial statements. This involves a review of the available evidence underlying the data on which these are based.

Entities Required to Be Audited

17. All companies except "exempt proprietary" companies must appoint auditors to audit their financial statements annually. An exempt proprietary company (that is, a private company with no public company shareholders) is not required to have such audits or appoint an auditor if, within one month preceding its annual general meeting, all shareholders of the company have agreed that it is not necessary.

18. Irrespective of whether financial statements are audited, the directors are responsible for ensuring that the financial statements

comply with the disclosures required by the Corporations Law and are prepared in accordance with AASB Accounting Standards. The statutory disclosures required for exempt proprietary companies are considerably less onerous than those required for other companies.

Appointment and Qualifications of Auditors

19. The appointment of an auditor is made at the company's annual general meeting. For newly incorporated companies, an auditor must be appointed within one month from the date of incorporation. The auditor will generally hold this office until resignation or removal by the voting shareholders of the company. An auditor of a company can be removed from office by a resolution of the company at a general meeting when special notice of the resolution has been given. If special notice of a resolution to remove an auditor is received by the company, the company must send a copy of the notice to the auditor and to the Commission. In such a situation, the auditor has the right to make written representations to the company and request that these be forwarded to the shareholders. If an auditor is removed at a general meeting, a new auditor may be appointed by a resolution passed by at least 75 percent of the company's voting shareholders.

20. The audit must be performed by a qualified registered company auditor or by an auditing firm of which at least one member is a registered company auditor. Unless the company is an exempt proprietary company, the auditor may not be any of the following:

a. A partner, employer, or employee of the company

b. An officer of the company

21. In addition, an auditor may not act as company auditor if the auditor, or a corporation in which the auditor is a substantial shareholder, owes the company or a related company more than Australian dollars (A$)5,000.

22. In addition to the foregoing statutory rules, the Australian Accounting Bodies have issued the following ethical rulings governing the professional independence of auditors:

a. An auditor or relative of the auditor is prohibited from—

- Being a beneficial owner of shares in an audit client that form a material part of the equity share capital of the client or form a material part of the assets of the auditor.
- Acting as the trustee of a trust or as a director of a corporate trustee company that has a material interest in an audit client.
- Accepting, making, or guaranteeing a loan from or to an audit client unless the loan is negotiated at arm's length in the ordinary course of the client's business. (Even if the latter condition is met, auditors are cautioned to consider whether such a loan may have an impact on their professional independence.)
- Accepting from an audit client goods or services on terms more favorable than those generally available to others.

b. An auditor is prohibited from—

- Accepting or retaining a directorship of a company that exerts significant influence over another company that is an audit client.
- Acting in an executive decision-making role when providing management consulting services to an audit client.
- Except in unusual circumstances, participating in the preparation of the books of account of a public company audit client.

Auditing and Reporting Responsibilities

23. Company directors (*a*) have a statutory obligation to ensure that the financial statements comply with AASB Accounting Standards and give a true and fair view of the financial position and operating results of the company and (*b*) must state annually in the financial statements whether in their opinion the company will be able to pay its debts as and when they mature. Directors are responsible for ensuring that the company safeguards its assets and maintains a complete and adequate set of accounting records and statutory registers.

24. Before financial statements are prepared, directors are required to take reasonable steps to ensure the following:

a. Bad debts have been written off, and an allowance for doubtful accounts is established.

b. The carrying amounts of current assets do not exceed realizable values.

c. The carrying amounts of noncurrent assets do not exceed replacement values.

25. The following are an auditor's statutory obligations:

a. The auditor must form an opinion as to the truth and fairness of the matters contained in the financial statements and must report accordingly to the shareholders of the company.

b. The auditor must form an opinion on various specific matters, such as whether proper accounting records have been maintained, and must report any deficiency or failure.

c. If there has been a departure from an AASB Accounting Standard, the auditor must, within seven days of furnishing his or her report to the company's directors, send a copy of that report to the AASB.

26. The auditor is also required to take certain specified actions, including reporting in writing to the Commission, whenever breaches of the Corporations Law are identified.

27. The auditor of a company that has raised funds from the public (a borrowing corporation) has the responsibility to report to the company and the trustee for debenture holders if there is concern that the interests of the holders may be prejudiced.

28. An auditor has a right of access at all reasonable times to all accounting and other records, including registers of the company and subsidiaries. For the purposes of the audit, the auditor has a right to obtain information or any necessary explanation from any company officer. The Law provides for substantial penalties if an auditor's completion of an audit is obstructed.

29. An auditor (or an agent authorized by the auditor) is entitled to—

a. Attend any general meeting of the company.

b. Receive all notices and other communications that a shareholder receives.

c. Speak at any general meeting on matters that concern the auditor in an official capacity.

30. An auditor normally determines the scope of an examination in accordance with Australian Statements of Auditing Standards and Practice, the requirements of relevant legislation and regulations, and the terms of the audit engagement.

31. Paragraph 11 of AUS 1 states that "it is essential that there is a clear understanding between the auditor and client as to the extent of audit duties, particularly when there is no specific statutory duty involved. Such understanding shall be evidenced in writing."

Filing of Reports

32. The auditor's report must be attached to the financial statements and sent to shareholders by the company not less than fourteen days before the annual general meeting. The annual general meeting must be held within five months (six months in the case of an exempt proprietary company) after the end of the financial year.

33. Every company must then file within one month after the annual general meeting an annual return with the Commission. Companies that are not exempt proprietary companies must also file a copy of the financial statements together with the auditor's report.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

34. Australian auditing standards are similar to those of the United States. AUS 1 contains the standards that must be maintained by members in the course of their work and are applicable to all audits.

General Standards

35. The following are the basic auditing standards contained in AUS 1.

Integrity, Objectivity, and Independence

36. Auditors shall be straightforward, honest, and sincere in their approach to their professional work. They must be fair and must not allow prejudice or bias to override their objectivity. They

shall maintain an impartial attitude and both be, and appear to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with their integrity and objectivity.

Confidentiality

37. Auditors shall respect the confidentiality of information acquired in the course of their work and shall not disclose any such information to a third party without specific authority or unless there is legal or professional duty to disclose.

Skills and Competence

38. The audit shall be performed and the report prepared with due professional care by persons who have adequate training, experience, and competence in auditing.

Standards of Fieldwork

Work Performed by Assistants

39. When auditors delegate work to assistants, they shall carefully direct, supervise, and review the work delegated.

Work Performed by Other Auditors and Experts

40. When auditors use the work performed by other auditors or experts, they continue to be responsible for forming and expressing an opinion on the financial information. Auditors shall obtain reasonable assurance that work performed by other auditors or experts is adequate for their purposes.

Documentation

41. Auditors shall document matters that are important in providing evidence that the audit was carried out in accordance with Auditing Standards and Practice Statements.

Planning

42. Auditors shall plan their work to enable them to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business and shall be further developed and revised as necessary during the course of the audit.

Audit Evidence

43. Auditors shall obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable them to draw reasonable conclusions on which to base their opinion regarding the financial information.

Accounting System and Internal Control

44. Auditors shall gain an understanding of the accounting system and related internal controls and shall study and evaluate the operation of those internal controls on which they wish to rely in determining the nature, timing, and extent of other audit procedures.

Standards of Reporting

Audit Conclusions and Reporting

45. Auditors shall review and assess the conclusions drawn from the audit evidence obtained as the basis for expressing their opinion on the financial information. The review and assessment involves forming an overall conclusion as to whether—

a. The financial information has been prepared in accordance with Statements of Accounting Concepts and Accounting Standards.

b. The financial information complies with relevant regulations and statutory requirements.

c. The view presented by the financial information as a whole is consistent with the auditor's knowledge of the entity's business.

d. There is adequate disclosure of all material matters necessary to give a true and fair view.

46. The audit report shall contain a clear written expression of opinion on the financial information. An unqualified opinion indicates the auditor's satisfaction in all material respects.

47. If there has been a material departure from or noncompliance with a Statement of Accounting Concepts or an Accounting Standard, the auditor shall (except in the rare circumstances referred to in the following paragraph) express an exception or adverse opinion. The audit report shall contain a clear description of the substantive reasons for the qualifications and, unless impractical, a quantification of the possible effects on the financial information.

This information shall be presented in a separate paragraph preceding the opinion and may also include a reference to a more extensive discussion in a note to the financial statements.

48. The issuance of a Statement of Accounting Concepts or an Accounting Standard on a topic establishes that the information generated by the application of the Statement or Standard is relevant to users and, therefore, shall be provided in the financial information. It is recognized, however, that in rare circumstances, application of a Statement or Standard may result in misleading financial information. In such cases, the departure or noncompliance shall be detailed in the auditor's report together with the auditor's reasons for concurrence with the departure or noncompliance.

49. When an exception opinion, adverse opinion, or disclaimer of opinion is given, the audit report shall state all the reasons in a clear and informative manner.

50. In addition to the AUSs there are Statements of Auditing Practice (AUPs), which provide authoritative guidance on specific audit procedures. Statements of Auditing Standards and Auditing Practice apply to all audits in the private and public sector. Any limitation on the applicability and scope of a statement is expressly stated in the Statement. AUPs are similar to the Statements on Auditing Standards (SASs) issued by the AICPA. In general, they are not as extensive or comprehensive. See appendix A for a list of all current AUPs through April 1993.

51. Circumstances may require a departure from an unqualified report. The following situations (discussed in AUP 3, *The Audit Report on a General Purpose Financial Report*) require qualified reports:

a. A limitation exists on the scope of the auditor's work imposed by the client.

b. A disagreement occurs with management with respect to the financial statements.

c. There exists a material uncertainty affecting the financial statements, the results of which depend on future events.

52. A "disagreement with management" is analogous to what U.S. auditing standards call "a departure from generally accepted accounting principles (GAAP)." It would require a qualified "except

for" opinion or an adverse opinion, depending on the circumstances. The auditor's report should clearly describe the nature of the disagreement and, if possible, quantify its effects.

53. When there has been a limitation of scope on the auditor's work, the auditor's report should describe the limitation and indicate that the opinion is qualified as to possible adjustments that might have been determined had the limitation not existed.

54. An uncertainty would require a "subject to" opinion or a disclaimer of opinion, depending on the circumstances. The auditor's report should describe the uncertainty and make reference, where applicable, to the notes to the financial statements if they discuss the nature of the uncertainty.

Using the Work of Another Auditor

55. The auditor of a group of companies has a statutory duty to disclose in his or her report the names of any subsidiaries of which he or she has not acted as auditor, and also the details of any qualification or comment made in the audit report of a subsidiary company. With respect to foreign subsidiaries, however, the auditor—

a. Does not have to disclose the name of a foreign subsidiary for which he or she has not acted as auditor, provided he or she has examined the auditor's report and is satisfied that it is based on Australian auditing and accounting standards.

b. Does not have to give details of any audit qualification or comment of a foreign subsidiary provided he or she has examined the auditor's report and is satisfied that it is based on Australian auditing and accounting standards and that the qualification or comment relates solely to departures in a foreign jurisdiction and that the departures do not involve a failure to comply with Australian auditing or accounting standards.

56. In situations in which certain subsidiaries in a group of companies have different auditors, the responsibility for forming an audit opinion on the group rests with the auditor of the parent company.

57. In Australia, it is permissible, although uncommon, for two auditors to jointly audit a company's financial statements and sign the opinion.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

58. As indicated previously, the AASB and the AARF are responsible for the development and promulgation of accounting standards.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

59. The directors must ensure that the financial statements comply with all of the statutory disclosures applicable to their company (these vary according to company status and, in certain cases, size), and they have the additional responsibility of adding any information and explanations that are necessary to give a true and fair view when the statutory disclosures fail to do so.

60. In the statement by the directors, which forms an integral part of the financial statements, the directors are required to—

a. State whether in their opinion the financial statements give a true and fair view.

b. State whether in their opinion at the date of the statement the company will be able to pay its debts.

61. The directors' report is a separate document, and unlike the directors' statement, it is not subject to audit. The contents of the report vary according to a company's status (for example, dormant

or public company). The directors' report for a public company would include the following:

- Directors' names, qualifications, experience, any special responsibilities, and the number of directors' meetings each director attended
- Directors' shareholdings
- Certain director benefits
- Directors' interests in contracts or proposed contracts with the company
- The principal activities of the company, including any significant changes
- The net income after provision for income tax
- The dividend declaration, if any
- A review of operations and results of operations
- Significant changes in financial position
- Events after the balance sheet date that may significantly affect the operations or state of affairs in future years
- Details of outstanding share options
- Likely future developments and expected results (except if disclosures would prejudice the interests of the company)

62. The report must be signed by at least two directors no less than fourteen days or no more than fifty-six days before the annual general meeting.

63. In addition to the statutory requirements of the Corporations Law, listed companies must also comply with the requirements of the Australian Stock Exchange.

64. Accounting Standards (both the AASB and AAS series) are required to be complied with only by "reporting entities" that are required to prepare "general purpose" financial reports. *Reporting entities* are defined in Statements of Accounting Concepts as all entities in which it is reasonable to expect users to rely on general-purpose financial reports for useful information in making and evaluating decisions about the allocation of resources.

Types of Statements Prepared

65. Financial statements normally include the following:

- Profit-and-loss account

- Balance sheet
- Statement of cash flows
- Notes to the financial statements
- Statement by directors

66. The structure of Australian corporate financial reporting is governed by the following:

Source	*Element*
Corporations Law	Disclosure and some accounting methodology
Schedule 5 to the Corporations Law	Disclosure
AASBs	Disclosure and accounting methodology
AASs	Disclosure and accounting methodology
Accounting Guidance Releases	Disclosure and accounting methodology
Australian Securities Commission (ASC) Policy Statements and Practice Notes	Disclosure
ASC Class Orders	Disclosure and accounting methodology
Australian Stock Exchange (ASX) Listing Rules	Disclosure

67. Under the Corporations Law, consolidated financial statements must be prepared by a "chief entity," meaning a company that is the parent entity of a reporting entity. All entities controlled by the chief entity are included in the consolidated financial statements irrespective of legal form or type of activity.

68. Control for consolidation purposes is defined as the capacity of an entity to dominate decision-making regarding the financial and operating policies of another entity, directly or indirectly,

so as to enable that other entity to pursue the objectives of the controlling entity.

69. Schedule 5 of the Corporations Law, which mandates corporate disclosure requirements, differentiates among companies based on their form and size. The purpose is to restrict more comprehensive reporting to those companies with significant public investments or to those that have incurred significant debt obligations. Presentation requirements for exempt proprietary companies are substantially less than those for nonexempt companies, listed corporations, and borrowing companies (that is, companies having borrowings from the public).

70. An interesting feature of Australian corporate reporting is the power vested in the ASC to issue "class orders" relieving the directors of specified individual companies or classes of companies from compliance with specified financial statements and audit provisions of the Corporations Law. Many Australian parent companies have taken advantage of the class order that exempts wholly owned subsidiaries from preparing separate financial statements and from having these statements audited.

71. Schedule 5 requires fixed balance sheet and profit-and-loss account formats. Where applicable, the exact titles and words are to be used in the prescribed sequence. Departures are permitted only for financial statements that would otherwise not present a true and fair view.

72. Individual revenue and expense items are not required to be presented on the face of the income statement. Schedule 5 requires certain of these items to be disclosed in the notes to the financial statements.

Statement of Cash Flows

73. Cash inflows and outflows are required to be reported by all reporting entities to provide users with relevant information about the operating and other activities of the entity. In practice, most companies classify cash flows into operating, investing, and financing activities. Specific disclosures include—

- Separate cash flows for interest income, dividends received, interest expense, dividends paid, and income taxes paid.
- Cash flow effects of acquisitions and disposals of entities.

- Information about noncash financing and investing activities.
- Details of credit arrangements.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

74. Assets and liabilities are classified in the financial statements according to their nature or function. There is a requirement underlying Australian accounting principles that assets must not be carried in excess of their recoverable amounts. The recoverable amount means the net amount that is expected to be recovered from an asset's continued use and subsequent disposal.

75. A *current asset* is defined by the Corporations Law as cash or other assets that would, "in the ordinary course of business, be consumed or converted into cash within 12 months after the end of the last financial period." A *current liability* is defined as "a liability that would in the ordinary course of business be due and payable within 12 months."

Asset Revaluations

76. A major difference between Australian and U.S. accounting practice is that Australian companies are allowed the option of revaluing noncurrent assets. The relevant accounting standard, *Accounting for Revaluation of Non-Current Assets* (AASB 1010), is concerned with how to account for and disclose revaluations rather than when they should occur and on what basis they should be carried out.

77. When a noncurrent asset is revalued, the entire class of assets to which it belongs must be revalued on a consistent basis. At the same time, any accumulated depreciation existing at the date of revaluation must be credited against the asset account to which it relates.

78. A revaluation increment in a class of assets is credited to an asset revaluation reserve. If the increment is a reversal of a revaluation decrement previously charged against income, it is credited to income.

79. A net revaluation decrement is debited to income except to the extent that it reverses a revaluation increment previously credited to, and still remaining in, the asset revaluation reserve. In such a case it is debited to the reserve.

80. Revaluation increments and decrements may be offset only within the same class of noncurrent assets. The revaluation of a class of noncurrent assets must not result in the carrying amount of any asset within that class exceeding its recoverable amount.

81. Inventories are valued at the lower of cost or net realizable value. Where practical, each item of inventory is valued separately, although similar items may be dealt with as a group. The cost of inventories is defined in AASB 1019, *Measurement and Presentation of Inventories in the Context of the Historical Cost System*, as the "aggregate of the cost of purchase, the cost of conversion and other costs incurred in the normal course of operations in bringing the inventories to their present location and condition." Cost of conversion will include an appropriate share of both fixed and variable costs. The following are acceptable methods of assigning costs to inventories: specific identification; weighted-average cost; first-in, first-out (FIFO); and standard cost. The last-in, first-out (LIFO) method is not permissible.

Investments and Equity Accounting

82. If an investor company can exert significant influence over another company in which it has an investment, the investor company must, under AASB 1016, *Disclosure of Information About Investments in Associated Companies*, disclose equity accounting information, but this must not be incorporated into the statutory financial statements. *Significant influence* is defined in AASB 1016 as the "capacity of an investor to affect substantially either, or both, of the financial and operating policies of an investee." Significant influence is normally presumed to exist when a company holds 20 percent or more of the voting power in an investee; however, significant influence could occur in situations in which less than 20 percent of the voting power is held (for example, representation on the board of directors of the investee or material intercompany transactions between the investor and investee).

Acquisitions of Assets and Business Entities

83. Acquisitions of assets or shares (including entire business entities) are accounted for under the cost method. The pooling-of-interest method is not permitted. The cost of acquisition is equal to the sum of the purchase consideration given plus any costs incidental to the acquisition.

Goodwill

84. *Goodwill* is defined in AASB 1013, *Accounting for Goodwill*, as the future benefit from unidentifiable assets. Internally generated goodwill is not recognized. Purchased goodwill, however, is recorded in the financial statements as an asset. Goodwill is measured as the excess of the purchase consideration plus incidental expenses over the fair values of identifiable net assets acquired. Goodwill is amortized over the period it is expected to benefit, and this period is not to exceed twenty years. The ability of unamortized goodwill to generate future economic benefit is evaluated at each balance sheet date and written down to the extent that future benefits are no longer probable.

Expenditure Carried Forward

85. AAS 9, *Expenditure Carried Forward to Subsequent Accounting Periods*, recommends that an expenditure only be carried forward to subsequent accounting periods if (*a*) it is material, (*b*) it does not relate to revenue that has been recognized, (*c*) it can be clearly identified as contributing to future revenue-earning capability, and (*d*) the business expects to either generate sufficient future revenue to absorb the amount carried forward or realize at least the book value of any amount carried forward. If these criteria are not met, the expenditure must be expensed when incurred.

Research and Development

86. Research and development (R&D) is defined, and the method for its accounting is described, in AASB 1011, *Accounting for Research and Development Costs*. R&D costs incurred during a period are deferred only to the extent that identifiable future benefits are expected, beyond any reasonable doubt, to equal or exceed those costs. Deferred costs are amortized beginning with commercial production

of the new product or process over the periods in which benefits are expected from the sale or use of the product or process. Deferred costs are reviewed regularly. When the criteria for deferral are no longer met, the unamortized balance is written off.

87. Financial statements are required to disclose the amount of deferred R&D costs and the basis for deferral and amortization. R&D activities conducted for others under contract and specialized R&D activities in extractive industries are not covered by the standards.

Leases

88. AASB 1008, *Accounting for Leases*, divides leases into two categories (finance leases and operating leases) and specifies accounting and disclosure requirements for each category. Lease classification is based on the economic substance of the lease transaction. If substantially all of the risks and benefits of ownership are passed to the lessee, a finance lease exists. Otherwise, the lease is an operating lease. The following criteria are used for recognition of a finance lease:

a. The lease cannot be cancelled.

b. Either (1) the lease term is equal to 75 percent or more of the useful life of the property or (2) the present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the property.

89. Lessees capitalize finance leases by recognizing the leased property as an asset and recording their obligation for minimum lease payments as a liability. The value of the asset and related liability is determined by the present value of the minimum lease payment, less any estimated unguaranteed residual value to the lessor at the end of the lease term. The capitalized lease is amortized over the lease term or, if the title is to be transferred to the lessee at the end of the lease term, over the asset's useful life. Lease payments should be apportioned between interest (computed at the rate implicit in the lease) and principal. Operating lease payments (rents) are charged to expense in equal amounts over the period of the lease term.

90. Lessors are required to subclassify finance leases into direct financing, sales-type, or leveraged leases. There is no separate statement on accounting for leveraged leases. In a direct financing lease, the lessor records the investment as a receivable equal to the

present value of the minimum lease payments plus the present value of any unguaranteed residual value. The difference between the investment as recorded and the fair value of the leased asset represents "finance revenue" to be recognized progressively over the lease term. The interest component of each lease payment is determined by applying the implicit interest rate to the balance of the lessor's net investment in the lease at the start of each period.

91. Under a sales-type lease, the lessor must recognize gross profit or loss on the lease transaction based on the difference between the fair value and the cost (or carrying amount) of the leased asset at inception. The lessor's investment in the lease is handled in the same manner as for a direct financing lease. For operating leases, lessors recognize revenue as earned over the lease term.

Income Tax

92. Income tax expense is calculated on the pretax accounting income after adjusting for items that, as a result of their treatment under income tax legislation, create permanent differences between pretax accounting income and income subject to tax. The difference between income tax expense and income tax payable consists of timing differences that arise when items of revenue and expenses are recognized in the financial statements in periods that are different from the periods in which they are assessable or allowable for income tax purposes. The tax effect of such timing differences is represented in the balance sheet as "future income tax benefits" or "provisions for deferred income tax," at current tax rates. Balance sheet amounts are amended as tax rates change. Future tax liabilities are always recorded. A future income tax benefit is recorded as an asset only when realization of the benefit can be regarded as beyond reasonable doubt. Realization is dependent on the ability of the company to generate profits in future periods. The future tax benefit and future tax liability may be offset when they are expected to reverse in the same accounting period.

Construction Contracts

93. The percentage-of-completion method is the preferred method for recognizing revenue from construction contracts. AASB 1009, *Accounting for Construction Contracts,* establishes criteria for

using the percentage-of-completion method for both cost-plus and fixed-price contracts. The measurement and other recognition requirements relating to the percentage-of-completion method in Australia are similar to those in the United States.

Foreign Currency Translation

94. AASB 1012, *Foreign Currency Translation*, requires companies to record foreign currency transactions in the domestic currency using exchange rates in effect at the transaction date. Foreign currency monetary items outstanding at the balance sheet date are translated at the current rate at that date.

95. Immediate recognition in the profit-and-loss account of exchange differences relating to all foreign currency monetary items is required, except when—

a. Related or attributed to a qualifying asset under construction.

b. Related to hedge transactions for the purchase or sale of goods or services.

c. Related to a discount or premium included in the cost or gain arising at the time a hedge transaction was entered into.

96. The financial statements of foreign operations are translated into Australian dollars using the "current rate method" if the foreign operations are self-sustaining and the "temporal method" if the foreign operations are financially and operationally interdependent within the company. Under the current rate method, assets and liabilities are translated at the exchange rate current at balance sheet date, and exchange differences are transferred in consolidation to a reserve account called a "foreign currency translation reserve." Under the temporal method, monetary items are translated at the exchange rate current at balance sheet date; nonmonetary items are translated at historical exchange rates and exchange differences are recorded in the profit-and-loss account.

Current Cost Accounting

97. Although "current cost accounting" statements are not required, guidelines on their presentation and disclosure are found in Statements of Accounting Practice (SAP) 1.

Related Party Disclosures

98. Required disclosures of related party information are contained in AASB 1017, *Related Party Disclosures.* A *related party* is defined, in relation to an entity, as one of the following:

a. Any other entity that, at any time during the financial period, has control or significant influence over the entity
b. Any other entity that, at any time during the financial period, is subject to control or significant influence by the entity
c. Any other entity that, at any time during the financial period, is controlled by the same entity that controls the entity (referred to as a situation in which entities are subject to common control)
d. Any other entity that, at any time during the financial period, is controlled by the same entity that significantly influences the entity
e. Any other entity that, at any time during the financial period, is significantly influenced by the same entity that controls the entity
f. Any director of the entity
g. Any director of any other entity identified as a related party

99. This definition excludes any other entity if the relationship results solely from normal dealings of financial institutions, authorized trustee corporations, fund managers, trade unions, statutory authorities, government departments, or local governments.

100. In determining the existence of related party relationships, attention is directed to the substance of the relationship and not merely its form. The disclosure requirements in the standards include—

a. The name of each person holding the position of director at any time during the year.
b. Total directors' income and the number of directors that fall within each A$10,000 band.
c. Total retirement benefits paid to directors or to funds on behalf of directors.
d. Loans to directors.
e. Details of all major transactions with directors and with other related parties.

f. Amounts of interest and dividend income, interest expense, and provisions for doubtful accounts resulting from transactions with each related party.

g. Aggregate amounts of receivable from and payable to each related party.

h. Aggregate amount of provisions for doubtful accounts for each related party.

i. Any ownership interest in related parties.

101. Under AASB 1014, *Setoff and Extinguishment of Debt,* debt may be extinguished by repayment or refinance, through legal defeasance, or through an in-substance defeasance. Under AASB 1014, *legal defeasance* is defined as "the release of the debtor from the primary obligation [which] is either acknowledged formally by the creditor or by a duly appointed trustee of the creditor, or established by legal judgement." In contrast, an *in-substance defeasance* is "a defeasance other than a legal defeasance in which the debtor effectively achieves release from the primary obligation for a debt either by placing in trust assets which are adequate to meet the servicing requirements (both interest and principal) of the debt or by having a suitable entity assume responsibility for those servicing requirements." Gain or loss on extinguishment must be recognized during the period in which the defeasance arrangement occurs. The Australian standards do not preclude accounting for an instantaneous in-substance defeasance as an extinguishment, provided the conditions described in the standards for in-substance defeasances are met. In all cases, it must be highly improbable that the debtor will be required to reassume any of the primary obligations for the debt-servicing requirements (interest or principal) or to satisfy any guarantee, indemnity, or the like relating to such requirements. For a debt to be accounted for as having been extinguished through an in-substance defeasance, either (*a*) risk-free assets are irrevocably transferred to an independent trust or (*b*) a risk-free entity assumes responsibility for the servicing of the debt.

102. *Risk-free assets* are defined as cash or securities of a risk-free entity that are denominated in the same currency as the debt being defeased. A "risk-free entity" is a creditworthy government or a body guaranteed under statute by such a creditworthy government.

103. Any difference between the carrying amount of an asset given up in defeasance of a debt and the carrying amount of the

debt is taken to profit and loss. The carrying amounts of the assets and liabilities involved are determined by discounting future cash flows at interest rates implicit in the transactions giving rise to the assets and liabilities.

104. Split defeasance (that is, the accounting for the defeasance of principal and interest separately) is prohibited. A debt can only be accounted for as a partial defeasance if proportionate amounts of both principal and interest are accounted for as having been extinguished.

105. The following disclosures are required during the period in which defeasance takes place:

a. The aggregate carrying amount of assets given up
b. The aggregate amount of debt extinguished
c. The net gain or loss on defeasance

106. In contrast to U.S. standards, in which extinguishment of debt is treated as an extraordinary item, classification of the gains and losses on extinguishment under Australian standards would depend on whether the extinguishment arose from ordinary operations.

Setoff of Assets and Liabilities

107. Assets and liabilities are normally not permitted to be offset against each other on the balance sheet. However, if a "legal right of setoff" exists, it is permissible. Under AASB 1014, a "right of setoff" means a right that—

a. Exists when two entities owes the other determinable amounts.
b. Allows the reporting entity to set off the amount owed against the amount owed by the other entity.
c. Is intended to be exercised by the reporting entity.
d. Is recognized by law.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

108. The following are the forms of business organization in Australia:

a. Companies (corporations)
b. Foreign branches
c. Partnerships and joint ventures
d. Trusts

Entities With Corporate Attributes

109. The Australian Securities Commission (ASC) is the sole authority responsible for administering the Corporations Law, which regulates corporations, securities, and futures markets.

110. The following types of companies may be incorporated under the Corporations Law:

Type of Company	*Corresponding U.S. Entity*
A company limited by shares—the liability of each shareholder is limited to the share investment and any unpaid amount on those shares.	Corporation
A company limited by guarantee—the liability of each shareholder is limited to the amount pledged as a contribution to the assets of the company in the event of dissolution. These pledges	Not-for-profit organization

(Continued on next page.)

Type of Company	Corresponding U.S. Entity
are recorded in the company's memorandum of association.	
A company limited by both shares and guarantee.	Not-for-profit organization
An unlimited company—the liability of shareholders for company debts is unlimited.	Partnership/sole proprietorship
A no-liability company—shareholders can forfeit their shares without paying any amount on their unpaid shares. (Only mining companies can elect to be no-liability companies.)	N/A

111. The most common form of business organization is the company limited by shares, referred to simply as a company. Two types of companies exist: the public company and the proprietary (private) company. Public companies whose shares are traded on a stock exchange are referred to as listed companies.

112. A company may be incorporated as a proprietary company provided the articles of its incorporation—

a. Restrict the right to transfer shares.

b. Limit the number of its members to fifty.

c. Prohibit any public offering of shares or debentures.

113. A proprietary company may attain exempt status provided none of its shares is held by a public company. As previously mentioned, an exempt proprietary company can elect not to appoint an auditor and has reduced reporting and disclosure requirements.

114. Although a company incorporates in one state, there is no requirement for it to register in each state in which it plans to conduct business. A company must maintain a registered office open to the public.

115. Companies must have a memorandum of association, which must be submitted by the company's incorporators to the ASC for registration and issuance of a certificate of incorporation.

116. The memorandum of association governs a company's operations. The memorandum must indicate the name of the company, its holdings, the liability of its members, and the amount of share

capital authorized. The memorandum of a public company must be signed by at least five persons, and each person must hold at least one share. Proprietary company memorandums are required to have only two signatures.

117. The principal controlling body of the company is the board of directors, which is appointed by shareholders. A public company must have at least three directors, two of who are residents of Australia. A proprietary company must have at least two directors, one of who is a resident of Australia. All companies must have at least one secretary who resides in the state of incorporation.

118. Directors assume significant responsibilities under the Corporations Law. Breach of duty by a director is a serious offense, punishable by fine or imprisonment. In addition, a director may be ordered to pay compensation to the corporation and its shareholders. Responsibilities of a director include, but are not limited to, honesty, reasonable care and diligence, and proper use of information and position.

119. If a company issues shares at an amount greater than their par or nominal value, an account must be established equal to the value of the premium on those shares, called the "share premium account."

120. Shares bought back by a company must be canceled; there is no provision for holding "treasury stock." In order for a company to buy back its shares, its articles of association must contain an appropriate authorization, which must be renewed every three years by special resolution.

121. Only ordinary shares can be bought back and then only in the case of "buyback schemes" (from all shareholders of a class of ordinary shares), "employee-shares purchases" (in accordance with an employee share scheme), "odd-lot purchases by listed bodies" (purchases of unmarketable shares), and "selective buybacks" (those from particular shareholders and not falling within the other categories).

122. In addition to the foregoing there are a number of other conditions that must be met. These include solvency declarations by directors, auditor's reports on solvency declarations (except proprietary companies for which the buyback will not result in more than 10 percent of shares being acquired in the past twelve months), and advertisements in the case of "buyback schemes" and "selective buybacks."

123. Specific provisions apply to each type of buyback, some of which vary according to whether the company is a public company or a proprietary company.

124. There is a requirement for compliance certificates (signed by two company officers and stating that the relevant legislation has been complied with) to accompany an offer, and wide powers are granted the ASC to declare a buyback to be part of an unacceptable self-acquisition scheme.

Branches of a Foreign Company

125. If a foreign company wishes to carry on business in Australia or if it wishes to issue or sign negotiable instruments, it must be registered with the ASC. At registration, a foreign company will receive a nine-digit code identifying number known as the Australian Registered Body Number (A.R.B.N.).

126. A registered foreign company must appoint a local agent who is—

- A resident of Australia.
- Authorized to accept, on behalf of the foreign company, service of notices.

Partnership Entities

127. Partnerships are defined as associations between two or more parties conducting business in common with the objective of sharing profits and losses. Laws relating to the formation and registration of partnership entities are found in the various state Acts of Parliament. Although a written partnership agreement is common practice, it is not required. In such a situation the provisions of the State Partnership Acts would govern.

128. Joint ventures, either incorporated or unincorporated, are common business vehicles in mining exploration and extraction, as well as in property development. The joint venture agreement defines the participant's proportionate share in venture assets, liabilities, and results.

Other Forms of Business Organization

129. Trusts may be public (for a specific purpose or charity) or private (for the benefit of private individuals) and may be formed

as either discretionary (if the beneficiaries' entitlement is at the discretion of the trustee) or unit (fixed) trusts (if the beneficiaries' interest is fixed by shares or units). Unit trusts are often used for public investments in the form of property trusts or cash management trusts.

Foreign Investment

130. Under Australian government policy, foreign companies that wish to invest in or establish an Australian business must also comply with the rules of the Foreign Investment Review Board.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON THE STOCK EXCHANGE

Registration Requirements for Public Sale

131. The Corporations Law prohibits the offer for subscription or purchase, and the issue of invitations to subscribe to or buy shares, debentures, prescribed interest, or units of shares, unless a prospectus complying with the requirements of the Law has been filed with and, if applicable, registered with the ASC. A prospectus for shares or debentures must contain all information investors and their advisors would reasonably require to make an informed assessment of the financial viability of the issuing corporation and the rights attaching to the securities.

Requirements for Listing Securities on the Stock Exchange

132. Companies intending to invite public subscriptions may seek admission to the Australian Stock Exchange (ASX). The prerequisites for listing on the ASX can be found in the ASX listing rules manual.

Rules for Listed Companies

133. Once listed, companies are required to immediately notify the ASX of any information that—

a. Is likely to materially affect the price of the listed company.

b. Is necessary to avoid the establishment or continuation of a false market in the company's securities.

c. Investors and their professional advisors would reasonably require and expect to be disclosed for the purpose of making an informed assessment of—

- The assets and liabilities, financial position, profits and losses, and prospects of the listed company.
- The rights attached to securities of the listed company.

134. Periodic reports are required to be filed with the ASX, including semiannual financial statements (consolidated, if applicable), within 75 days after the end of that period. Preliminary final statements must be filed within 75 days after the financial year-end.

135. The company's annual report must be filed with the ASX within four months after year-end. The statements are required to be audited, to be in consolidated form, and to include footnotes disclosing certain specific information in addition to the normal statutory requirements. These disclosures include—

- The reason for and amount of any material variation between the preliminary final results and financial statements.
- The maximum contingent liability for termination of benefits under employment agreements with directors and other managers.
- A statement as of the date of the directors' report indicating the interest of each director in equity or other securities of the company or its affiliates.
- The details of material contracts involving directors.
- A statement made no earlier than six weeks before the issue of the company's annual report disclosing the names of all substantial shareholders, their holdings, and the number of holders of each class of shares.
- A statement of the percentage of total holdings of the twenty largest shareholders of each class of equity, as well as the names of the shareholders and the number of shares, by class, they hold.

136. Most of the ASX's listing requirements deal with the reporting of specific information and financial data.

SELECTED ECONOMIC DATA

137. Key demographic and social factors, based on 1991 Australian census data, follow.

Area (in millions of square kilometers)	7.7
Population (in millions)	17.3
Population under age 15	22.0%
Labor force (in millions)	8.6
Unemployment	9.4%
Students attending technical and higher education facilities (in millions)	2.1

138. The major Australian trading partners, as of 1990, are as follows:

Country or Area	*Exports (US$ millions)*	*Imports (US$ millions)*
Far East	10,677	6,706
Japan	10,205	7,307
Europe	6,241	10,630
North America	4,921	10,224
New Zealand	1,956	1,715
Other	4,911	2,556
	38,911	39,138

139. Australian export and import products for 1990 are as follows:

Product	*Exports (US$ millions)*	*Imports (US$ millions)*
Agricultural	6,802	1,459
Mining	6,657	1,068
Mineral fuels	6,656	2,192
Manufactured goods	4,408	5,870
Machinery and transport equipment	2,258	17,192
Chemical	830	3,497
Other	11,300	7,860
	38,911	39,138

TAXES

Principal Types

140. Income tax is imposed on all residents of Australia whether they are companies or individuals. The tax applies to worldwide income subject to certain exemptions.

141. Income tax is also imposed on income earned by nonresidents from Australian sources. Nonresident income tax liability is often reduced by provisions of an international double-taxation agreement.

142. Income taxes are calculated on a graduated scale for individuals. Companies have a specific applicable rate.

143. The year-end for taxpayers is generally June 30. Use of a different period is subject to the consent of the Commissioner of Taxation. A different period is generally granted to Australian subsidiaries that request the same year-end as their foreign parent.

144. Public and proprietary companies are taxed at the same rates. The company tax rate for 1993/94 and subsequent years is 33 percent.

145. Resident individual tax rates for the 1993/94 tax year are as follows:

Taxable Income (A$)	*Tax (A$)*	*On Excess (A$)*
0–5,400	—	—
5,401–20,700	—	+20% over 5,400
20,701–36,000	3,060	+38% over 20,700
36,001–50,000	8,874	+46% over 36,000
Over 50,000	15,314	+47% over 50,000

146. In addition, resident individuals pay a Medicare Levy (a health-care levy) of 1.4 percent of taxable income subject to phasing in for low-income earners.

147. Nonresident individual rates are the same as resident rates except that the first A$20,700 is taxed at 29 percent. There is no tax-free threshold for nonresidents.

Tax Returns

148. Income taxes are levied only at the federal level; the individual states share in federal tax revenues. For 1992/93, individuals required to file tax returns had to do so within four months following the tax year-end, unless the return was prepared by a registered tax agent, in which case the due date was extended. Each year the requirements for filing annual returns are set by the Commissioner in the Government Gazette. A tax assessment, based on the submitted returns, is generally issued by the Tax Office within three months of filing the return. Any tax due must be paid within thirty days of the date of assessment or on the thirtieth day after service of the notice. Any payment of tax installments is credited against the tax liability and overpayments are refunded. Companies are also required to file tax returns.

149. In addition to tax on ordinary income (such as salaries, business profits, interest, rent, and trust distributions), tax is imposed on capital gains. The taxable gain is generally the profit on sale reduced by an allowance for inflation; this taxable amount is included with ordinary income to determine the tax payable.

150. Capital losses are calculated without an allowance for inflation and can be carried forward indefinitely.

151. Foreign-source income derived by residents (whether individuals or companies) is generally taxable. Credits against the Australian tax liability are granted for any foreign tax paid on such income. Special rules apply to dividends received by companies from foreign subsidiaries.

152. From July 1, 1990—

a. Income derived by entities that are controlled foreign corporations (CFCs) located in countries that are not comparable tax countries (generally countries imposing tax at a rate lower than 25 percent) will be taxable in the hands of Australian owners in the year the income arises ("accruals taxation"), except if the active income exemption applies.

b. A CFC is a company that is controlled by five or fewer residents.

c. The active income exemption applies when "genuine" business income comprises 95 percent or more of the CFC's gross income. Accordingly, resident shareholders of CFCs with passive income (such as royalties, rents, or dividends) of 5 percent or more will be taxable in full on all of the CFC's income.

153. The tax deductibility of interest paid by an Australian entity to a foreign controller (or an associate thereof) is limited. The limitation is that interest is deductible to the extent that the total amount of interest-bearing debt owed to a foreign controller (or associate) by the Australian entity does not exceed three times the foreign controller's (plus associates') equity. A foreign controller is a person or entity that has (or has when aggregated with associates) a direct or indirect interest of 15 percent or more in the Australian entity.

154. Australia also imposes a limitation on the deductibility of interest on certain reorganizations of an Australian company group if a nonresident has an interest of 50 percent or more in that group.

155. Australia imposes withholding tax on interest, dividends, and royalties paid to nonresidents. The interest withholding tax is 10 percent. The dividend withholding tax is generally 30 percent but is reduced to 15 percent when the nonresident country has a double tax treaty with Australia. The withholding tax for royalties commenced in the 1993/94 year. It is 30 percent but is reduced generally to 10 percent of the royalty when the nonresident country has a double tax treaty with Australia.

156. Partnerships, joint ventures, and trusts are generally not subject to tax as entities but are required to file income tax returns in order to determine the distribution taxable in the hands of partners, beneficiaries, etc. Special exemptions and concessions apply to certain entities (for example, pension [superannuation] funds and life insurance companies).

157. Taxable income for companies is based on pretax accounting income; however, special adjustment rules apply to the following items:

a. Tax losses carried forward (there are no carrybacks)
b. Tax losses transferred between companies in a wholly owned group
c. Depreciation of plant and buildings (accelerated rates usually apply for tax purposes)
d. Fringe benefits (not tax-deductible)
e. Charges to provisions (not tax-deductible)
f. Entertainment expenses (not tax-deductible)

g. Australian film industry investments (special concessions apply)
h. Petroleum and mining operations (special concessions apply)
i. R&D costs (special concessions apply)

158. The following additional taxes are levied by either the Commonwealth of Australia or the individual states:

a. Wholesale sales tax
b. Customs excise tax
c. Payroll tax
d. Land tax
e. Natural resource tax (for example, the tax on mining extractions)
f. Stamp duty
g. Fringe benefits tax

APPENDIX A

Outstanding Auditing Pronouncements

Auditing Pronouncements as of April 1993 are as follows:

Statements of Auditing Practice (AUPs)

No.	*Title*
1	*Bank Confirmation Requests*
2	*Using the Work of an Internal Auditor*
3	*The Audit Report on a General Purpose Financial Report*
3.2	*Special Purpose Auditor's Reports*
4	*Auditing in an EDP Environment—General Principles*
4.1	*The Effects of an EDP Environment on the Study and Evaluation of the Accounting System and Related Internal Controls*
	Supplement 1 *Stand-Alone Microcomputers*
	Supplement 2 *On-Line Computer Systems*
	Supplement 3 *Database Systems*
4.2	*Computer-Assisted Audit Techniques* (CAATs)
5	*Existence and Valuation of Inventories in the Context of the Historical Cost System*
6	*Solicitors' (Attorneys') Representation Letters*
7	*Going Concern*
8	*Audit Implications of Events Occurring After Balance Sheet Date*
9	*Audit Engagement Letters*
10	*Planning*
11	*Using the Work of Another Auditor*
12	*Consideration of the Internal Control Structure and its Impact on Risk Assessment in a Financial Report Audit*
13	*Control of the Quality of Audit Work*
14	*Audit Evidence*
	Supplement 1 *Audit Evidence—Confirmation of Receivables*

No.	Title
15	*Documentation*
16	*The Auditor's Responsibility for Detecting and Reporting Irregularities Including Fraud, Other Illegal Acts, and Errors*
17	*Analytical Procedures*
18	*The Audit Implications of Equity Accounting*
19	*Other Information in Documents Containing Audited Financial Statements*
20	*Audit Evidence Implications of Using a Service Entity*
20.1	*Audit Evidence Implications of Externally Managed Assets and Income of Superannuation Funds*
21	*Audit Implications of Current Cost Accounting*
22	*Using the Work of an Expert*
23	*Resignation, Removal, or Retirement of an Auditor*
24	*Audit Sampling*
25	*Representations by Management*
26	*Related Parties*
27	*Materiality and Audit Risk*
28	*Audit of Accounting Estimates*
29	*First Year Audit Considerations—Opening Balances*
30	[withdrawn]
31	*Communication with an Audit Committee*
32	*Audit Independence*
33	*Performance Auditing*
34	*Knowledge of the Client's Business*
35	*Communication to Management on Matters Arising from an Audit*

Statements of Auditing Standards (AUSs)

No.	Title
1	*Statement of Auditing Standards*

Other Auditing Pronouncements

Statements of Auditing Practice/Related Services (AUP/RS)

No.	Title
1	*Review Engagements*
2	*Engagements to Perform Agreed-upon Procedures*

Auditing Guidance Releases (AUGs)

No.	Title
1	*Purpose and Scope of Releases*
2	*Expression of an Opinion on the Adequacy of Internal Control*
3	*Notification of Amendments to AUP*
4	*Audit Implications of Reserve Bank Reporting Requirements*
5	*Occupational Superannuation Standards Regulations*
6	*Accounting Estimates Made Pursuant to Accounting Standards*
7	*Share Buy-Backs—Auditor's Reports*
8	*Audit Reports Prepared Pursuant to the Corporations Law*
9	*Privity Letter Requests*
10	*Interim Endorsement of Expanded Audit Reports*

Audit Guides

No.	Title
1	*Audit Sampling*
2	*The Audit of Credit Unions*
3	*The Audit of Small Business Financial Reports*
4	*The Audit Superannuation Funds* (including Supplement)

APPENDIX B

Outstanding Accounting Pronouncements

The outstanding accounting pronouncements as of April 1993 are listed below:

Australian Accounting Standards

AAS Accounting Standard No.	*Title*	*AASB Accounting Standard No.**
6	*Accounting Policies—Disclosure*	1001
8	*Events Occurring After Balance Sheet Date*	1002
15	*Disclosure of Operating Revenue*	1004
16	*Financial Reporting by Segments*	1005
19	*Accounting for Interests in Joint Ventures*	1006
17	*Accounting for Leases*	1008
11	*Accounting for Construction Contracts*	1009
10	*Accounting for Revaluation of Non-Current Assets*	1010
13	*Accounting for Research and Development Costs*	1011
20	*Foreign Currency Translation*	1012
18	*Accounting for Goodwill*	1013
23	*Set-off and Extinguishment of Debt*	1014
21	*Accounting of the Acquisition of Assets*	1015
—	*Disclosure of Information about Investments in Associated Companies*	1016
22	*Related-Party Disclosures*	1017
1	*Profit and Loss Accounts*	1018

(Continued on next page.)

*AASB Accounting Standards 1003 and 1007 were withdrawn.

AAS Accounting Standard No.	*Title*	*AASB Accounting Standard No.*
2	*Measurement and Presentation of Inventories in the Context of the Historical Cost System*	1019
3	*Accounting for Income Tax (Tax-Effect Accounting)*	1020
4	*Depreciation of Non-Current Assets*	1021
7	*Accounting for the Extractive Industries*	1022
26	*Financial Reporting of General Insurance Activities*	1023
24	*Consolidated Accounts*	1024
—	*Application of the Reporting Entity Concept and Other Amendments*	1025
28	*Statement of Cash Flows*	1026
—	*Earnings per Share*	1027
5	*Materiality in Financial Statements*	—
9	*Expenditure Carried Forward to Subsequent Accounting Periods*	—
25	*Financial Reporting by Superannuation Plans*	—
27	*Financial Reporting by Local Governments* (effective July 1993)	—

Accounting Guidance Releases

No.	*Title*
1	*Purpose and Scope of Accounting Guidance Releases*
2	*Accounting for a Change in the Rate of Company Income Tax*
3	*Classification of Leases by Lessees and Lessors*
4	*Accounting for Intra-group Transfers of Tax Losses*
5	*Accounting for Intangible Assets*
6	*Accounting for the Fringe Benefits Tax*
7	*Accounting Implications of Dividend Imputation*
8	*Accounting for the Capital Gains Tax*
9	*Accounting for Marketable Securities*
10	*Measurement of Monetary Assets and Liabilities*
11	*Debtor's Accounting for Debt Restructuring*
12	*Accounting for Share Buy-Backs*

Statements of Accounting Concepts (SACs)*

No.	*Title*
1	*Definition of the Reporting Entity*
2	*Objective of General Purpose Financial Reporting*
3	*Qualitative Characteristics of Financial Information*

Statements of Accounting Practice (SAPs)

No.	*Title*
1	*Current Cost Accounting*

*The Concepts Statements are mandatory for members of the accounting profession. Although the Concepts Statements do not have the authority of an AASB Standard, their application is appropriate for preparers and auditors in satisfying their legal obligations. AASB and AAS Standards take precedence over the Concepts Statements should they be in conflict.

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following financial statements are intended for illustrative purposes. The statements presented are not intended to include all information that Australian law requires for a large nonexempt company that is both a borrowing and a listed corporation.

To the Members of
TRP (Major) Ltd.

Scope

We have audited the financial statements of TRP (Major) Ltd. for the financial year ended December 31, 1992 as set out on pages xx to xx. The financial statements include the consolidated accounts of the economic entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance that the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to determine whether, in all material respects, the financial statements are presented fairly in accordance with Australian accounting concepts and standards and statutory requirements so as to present a view which is consistent with our understanding of the company's and the economic entity's financial position and the results of their operations.

The names of the entities controlled during all or part of, or at the end of, the financial year, but of which we have not acted as auditors, are Totem Enterprises Ltd. and TRP (International) Ltd. We have, however, received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated accounts.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial statements of TRP (Major) Ltd. are properly drawn up:

(a) so as to give a true and fair view of:
  (i) the state of affairs as at December 31, 1992, and the profit for the financial year ended of the company and the economic entity; and
  (ii) the other matters required by Divisions 4, 4A, and 4B of Part 3.6 of the Corporations Law in the financial statements.

(b) in accordance with the provisions of the Corporations Law; and

(c) in accordance with Statements of Accounting Concepts and applicable Accounting Standards.

....	*[Firm Signature]*
....	*[Name of firm]*
....	*[Signature of partner]*
J. Wolf	*[Name of partner]*
City: Sydney	Date: March 15, 1993

STATEMENT BY DIRECTORS

In the opinion of the Directors of TRP (Major) Ltd.:

(a) the accompanying Profit and Loss Account is drawn up so as to give a true and fair view of the profit of the company for the year ended December 31, 1992.

(b) the accompanying Balance Sheet is drawn up so as to give a true and fair view of the state of affairs of the Company as at that date.

(c) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

(d) the accompanying consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations.

.... Director
A.B. Red

.... Director
G.H. Green

TRP (MAJOR) LTD. DIRECTORS' REPORT

Your directors submit the following report for the financial year ended December 31, 1992.

Directors

The names and particulars of the directors of TRP (Major) Ltd. in office at the date of this report are:

Name	*Qualifications, Experience and Any Special Responsibilities*	*Number of Directors' Meetings Attended*
A.B. Red	(Age 63) Chairman since 1983 and a Director since 1980; Director of ABC Bank Ltd.; Director of PZ Plastics Ltd.; Member of Audit Committee.	10
E.F. Blue, B.A.	(Age 55) Director since 1985; Managing Director and Chief Executive Officer of TRP (Major) Limited since 1987.	10
G.H. Green, FASA, CPA, FCIS	(Age 50) Director since 1985; Finance Director since 1987.	8

(Continued on next page.)

Name	*Qualifications, Experience and Any Special Responsibilities*	*Number of Directors' Meetings Attended*
I.J. Yellow, Bsc, BE.	(Age 52) Director since 1984; Engineer.	9
K.L. Orange, FCA.	(Age 49) Chartered Accountant; Director since 1987; Chairman of Audit Committee.	9
M.N. Black	(Age 53) Director since 1984; Director of PZ Plastics Ltd.; Director of Products International Inc.; Member of Audit Committee.	9
O.P. Purple, LL.B.	(Age 41) Solicitor; Director since 1991; Member of Audit Committee.	7

Number of Directors' Meetings Held During Year: 10

Interests of Directors in Shares in the Company or a Related Company

At the date of this report the following interests were held by directors:

Name	*Ordinary A$1.00 Shares in TRP (Major) Ltd.*
A.B. Red	100,000
E.F. Blue	50,000
G.H. Green	10,000
I.J. Yellow	—
K.L. Orange	5,000
M.N. Black	8,000
O.P. Purple	—

Interests of Directors in Contracts With the Company

The following are particulars of an interest in a contract with the company declared by Mr. M.N. Black in accordance with subsection 231(1) of the Corporations Law:

A contract for the purchase by Mr. Black of freehold land from the company situated in Napier, New Zealand, for a cash consideration of A$500,000, being the current market value of the land determined by an independent valuer.

Except as noted above, there were no material contracts involving directors' interests at the end of the financial year or entered into since the end of the prior year.

Principal Activities

The principal activities of the company and the entities it controlled from time to time during the year have been:

1. The manufacture and sale of plastic models.
2. The import, distribution and installation of equipment used in mining activities.

There has been no significant change in the nature of the above activities during the financial year.

Consolidated Profit

The net consolidated profit of the economic entity for the financial year ended December 31, 1992, after provision for income tax and after deducting any amounts properly attributable to outside equity interests was A$1,194,000.

Dividends

The directors recommend that the following final dividends be paid:

3.50 cents per ordinary share	A$350,000

The following amounts have been paid by way of dividend since the commencement of the financial year:

Ordinary shares:	
2.50 cents per share interim dividend for 1992.	A$250,000
Final dividend for 1991 as recommended by the directors in their 1991 report.	250,000
Redeemable preference shares:	
10% dividend for 1992	100,000
	A$600,000

Review of Operations

Following the reorganization of the economic entity's activities in 1991, the plastic models and mining equipment divisions continued to expand their market shares in both the Australian and Southeast Asian markets.

Results of Operations

The plastic models division contributed A$2,081,000 to the operating profit before tax, an increase of 61 percent over the previous year. The mining equipment division contributed A$3,550,000, an increase of 71 percent over the previous year.

Significant Changes in the State of Affairs

The following significant changes in the affairs of the economic entity occurred during the financial year:

The issue of 600,000 ordinary shares in TRP (Major) Ltd. at a premium of A$1.00 per share to acquire a 60 percent interest in Totem Enterprises Ltd.

The raising of A$1,500,000 through the issue of 15 percent debentures repayable in 1997 to assist in the funding of new plant and equipment.

A settlement of the long-standing redundancy claim relating to the close-down of the paper mill in 1987 for a negotiated cash payment of A$944,000.

The sale of patents, rights, and freehold land surplus for A$3,587,000.

Significant After-Balance-Date Events

The group's 32 percent interest in its associated company Condamine Pty. Ltd. has been sold for a cash consideration of A$1,562,000.

Apart from the above, no matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the economic entity, the result of those operations, or the state of affairs of the economic entity.

Likely Future Developments and Expected Results

It is expected that the economic entity will continue to expand its operations both in Australia and Southeast Asia through its agency networks. The investments made during the past year in upgrading the manufacturing plant will provide the capacity necessary to take advantage of an expanding market.

Further information regarding likely developments in the operations of the economic entity and the expected results of those operations in financial years subsequent to the financial year have not been included in this report because, in the opinion of your directors, its disclosure would prejudice the interests of the economic entity.

Share Options

Options granted by TRP (Major) Ltd. during the financial year comprise options to all holders of ordinary shares to acquire ordinary shares in the company at A$3.00 per share in the ratio of one option for every ten ordinary shares held.

The options expire on June 30, 1996 and are exercisable at any time on or before that date.

Options to acquire a total of 1,000,000 ordinary shares were issued.

No person entitled to exercise these options had or has any right, by virtue of the options, to participate in any share issue of any other corporation.

No shares have been issued by virtue of the exercise of the options.

Directors' Benefits

Neither during nor since the financial year has a director received or become entitled to receive a benefit because of a contract that the director or a firm of which the director is a member, or an entity in which the director has a substantial financial interest, has made during that or any other financial year with the company or an entity that the company controlled, or an entity that was related to the company when the contract was made or when the director received or became entitled to receive the benefit, except any benefit that may be deemed to accrue to Mr. O.P. Purple by reason of professional fees paid in the ordinary course of business to the legal firm of which he or she is a member.

Rounding-off of Amounts to the Nearest Thousand Dollars

The company, in accordance with Section 311 of the Corporations Law, rounded off amounts to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Directors.

.... Director
A.B. Red

.... Director
G.H. Green

City: Sydney Date: March 15, 1993

TRP (MAJOR) LTD.
PROFIT AND LOSS ACCOUNTS
For the Year Ended December 31, 1992

		Consolidated		*Chief Entity*	
	Notes	*1992 (A$000)*	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Operating profit before abnormal items and income tax	3, 4	1,995	1,410	295	712
Abnormal items before income tax	5	1,072	(166)	583	163
Operating profit before income tax		3,067	1,244	878	875
Income tax attributable to operating profit	6	1,007	310	328	225
Operating profit after income tax		2,060	934	550	650
Loss on extraordinary item	7	944	–	–	–
Income tax attributable to loss on extraordinary item	6, 7	368	–	–	–
Loss on extraordinary item after income tax	7	576	–	–	–
Operating profit and extraordinary item after income tax		1,484	934	550	650
Outside equity interest in operating profit and extraordinary item after income tax		290	201	–	–

		Consolidated		Chief Entity	
	Notes	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Operating profit and extraordinary item after income tax attributable to members of the Chief Entity		1,194	733	550	650
Retained profits at the beginning of the financial year		1,437	979	250	100
		2,631	1,712	800	750
Aggregate of amounts transferred from reserves	8	202	225	–	–
Total available for appropriation		2,833	1,937	800	750
Dividends provided for or paid		700	500	700	500
Aggregate of amounts transferred to reserves	8	600	–	–	–
		1,300	500	700	500
Retained profits at the end of the financial year		1,533	1,437	100	250

The above profit and loss accounts are to be read in conjunction with the attached notes.

TRP (MAJOR) LTD.
BALANCE SHEETS
As of December 31, 1992

		Consolidated		*Chief Entity*	
	Notes	*1992 (A$000)*	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Current assets					
Cash		120	120	25	15
Receivables	9	3,946	2,400	421	365
Investments	10	54	—	54	—
Inventories	11	8,376	6,760	1,985	1,724
Other	12	100	80	15	20
Total current assets		12,596	9,360	2,500	2,124
Noncurrent assets					
Receivables	13	248	298	503	198
Investments	14	3,365	2,956	3,624	1,904
Inventories	15	590	420	—	—
Property, plant, and equipment	16	18,139	14,012	11,230	11,565
Intangibles	17	1,655	744	—	20
Other	18	135	146	19	8
Total noncurrent assets		24,132	18,576	15,376	13,695
Total assets		36,728	27,936	17,876	15,819
Current liabilities					
Creditors and borrowings	19	2,833	2,529	324	844
Provisions	20	1,034	709	710	519
Total current liabilities		3,867	3,238	1,034	1,363
Noncurrent liabilities					
Creditors and borrowings	21	7,282	5,792	1,573	1,533
Provisions	22	2,404	1,799	569	351

	Notes	Consolidated 1992 (A$000)	Consolidated 1991 (A$000)	Chief Entity 1992 (A$000)	Chief Entity 1991 (A$000)
Total noncurrent liabilities		9,686	7,591	2,142	1,884
Total liabilities		13,553	10,829	3,176	3,247
Net assets		23,175	17,107	14,700	12,572
Shareholders' equity					
Share capital	23	11,000	10,400	11,000	10,400
Reserves	8	9,134	5,004	3,600	1,922
Retained profits		1,533	1,437	100	250
Shareholders' equity attributable to members of the Chief Entity		21,667	16,841	14,700	12,572
Outside equity interest in controlled entities		1,508	266	–	–
Total shareholders' equity		23,175	17,107	14,700	12,572

The above balance sheets are to be read in conjunction with the attached notes.

TRP (MAJOR) LTD.
STATEMENT OF CASH FLOWS
For the year ended December 31, 1992

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
	Inflows (Outflows)		*Inflows (Outflows)*	
Cash flows from operating activities				
Receipts from customers	57,756	47,204	11,027	10,125
Payments to suppliers and employees	(55,599)	(45,554)	(10,514)	(8,641)
Interest received	99	50	53	62
Interest and other costs of finance paid	(1,225)	(1,021)	(577)	(510)
Dividends received	141	148	280	270
Income taxes paid	(260)	(200)	(180)	(124)
Net cash provided by operating activities	912	627	89	1,182
Extraordinary item				
Settlement of redundancy claim	(944)	–	–	–
Cash flows from investing activities				
Payment for property, plant, and equipment	(4,128)	(2,367)	(311)	(2,007)
Proceeds from sales of:				
Freehold land	2,820	–	1,000	–
Plant and equipment	387	116	105	80
Patent rights	767	–	603	–
Investments	–	1,375	–	1,375
Payment for Totem Enterprises Ltd. net of cash acquired	(400)	–	(500)	–
Payment for patents	(164)	–	–	–
Proceeds on disposal of Napier Manufacturing Ltd.	293	–	–	–

	Consolidated		Chief Entity	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
	Inflows (Outflows)		*Inflows (Outflows)*	
Payment for:				
Government bonds	(115)	(50)	(20)	–
Debentures	(93)	–	–	–
Listed shares	(149)	(100)	(165)	(50)
Net cash provided by (used in) investing activities	(782)	(1,026)	712	(602)
Cash flows from financing activities				
Proceeds from borrowings	1,724	751	23	200
Repayment of borrowings	(344)	(201)	(214)	(300)
Dividends paid	(600)	(500)	(600)	(500)
Net cash provided by (used in) financing activities	780	50	(791)	(600)
Net increase (decrease) in cash held	(34)	(349)	10	(20)
Cash at the beginning of the year	160	500	15	35
Effects of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the year	(8)	9	–	–
Cash at the end of the year	118	160	25	15

NOTES TO THE STATEMENT OF CASH FLOWS

1. Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Cash	120	120	25	15
Short-term deposits	50	50	—	—
Bank overdraft	(52)	(10)	—	—
	118	160	25	15

2. Reconciliation of Net Cash Provided by Operating Activities to Operating Profit After Income Tax

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Operating profit after income tax	2,060	934	550	650
Depreciation	652	772	359	510
Amortization	420	416	265	265
Provision for doubtful debts	232	24		15
Provision for diminution in value of:				
Investments	111	100	111	100
Inventories	132	60	—	—
Increase in income taxes payable	497	(40)	61	50
Increase in provision for deferred income tax	268	124	98	72
Increase in future income tax benefit	(18)	10	(11)	4

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Gain on sale of:				
Freehold land	(200)	–	–	–
Plant and equipment	(25)	(9)	(5)	(2)
Patent rights	(583)	–	(583)	–
Investments	(10)	(163)	–	(163)
Changes in assets and liabilities net of effects of purchases and disposals of controlled entities:				
Increase in trade debtors	(1,344)	(1,014)	106	(242)
Increase in bills of exchange	(100)	–	–	–
Increase in non-trade debts	–	–	(443)	(28)
Decrease in inventories of raw materials	436	185	–	–
Increase in work in progress	(464)	(175)	–	–
Increase in land held for resale	(54)	(75)	–	–
Increase in inventories of finished goods	(1,086)	(745)	(261)	(128)
Increase in prepayments	(20)	(10)	5	(5)
Increase in deferred research and development costs	(23)	(15)	–	–
Decrease in trade creditors	(112)	25	(252)	10
Increase in other creditors	10	–	(57)	–
Decrease in lease liabilities	(276)	(225)	–	–
Increase in provision for employee entitlements	504	298	146	74
Decrease in provision for service warranties	(95)	150	–	–
Net cash provided by operating activities	912	627	89	1,182

TRP (MAJOR) LTD.
NOTES TO THE ACCOUNTS
For the Year Ended December 31, 1992

1. Summary of Significant Accounting Policies

The principal accounting policies adopted by the economic entity comprising the chief entity TRP (Major) Ltd. and its controlled entities are stated to assist in a general understanding of the financial statements. These policies have been consistently applied except as otherwise indicated.

The financial statements have been drawn up in accordance with Schedule 5 to the Corporations Regulations, Statements of Accounting Concepts, and applicable Accounting Standards.

Basis of Accounting

The financial statements have been prepared on the historical cost basis and except where stated do not take into account current valuation of noncurrent assets.

The carrying amount of noncurrent assets does not exceed the net amount that is expected to be recovered through the cash inflows and outflows arising from continued use and subsequent disposal. The expected net cash flows included in determining the recoverable amounts have been discounted to their present values.

Principles of Consolidation

The consolidated financial statements combine the financial statements of TRP (Major) Ltd. and all its controlled entities.

The effects of all transactions between entities in the economic entity have been eliminated in full.

Outside equity interest comprises the aggregate of controlled entities, other than that held either directly or indirectly by the chief entity, after making adjustments for unrealized profits and losses of controlled entities and other adjustments necessary to comply with Accounting Standards.

Depreciation and Amortization of Property, Plant, and Equipment

Items of property, plant, and equipment other than freehold land are depreciated over their estimated useful lives using the straight-line method.

The useful lives of certain items of specialized plant used in the manufacture of plastic models were reassessed during the year and found to be longer than those previously used for depreciation purposes. The balances of the related provisions for depreciation at January 1992 have accordingly been reduced by A$279,000, and this amount has been credited to operating profit. Following this reassessment, the 1992 depreciation charge for plant and equipment was reduced by A$56,000.

Buildings have been revalued on the basis of estimated current market values. The balances of provisions for depreciation existing at the time of revaluation have been credited to the asset accounts and the net amounts restated to revalued amounts. Future depreciation charges will be based on the revalued amounts.

Leasehold improvements are amortized over the period of the lease.

Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases, under which the lessor effectively retains substantially all the risks and benefits. When assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortized on a straight-line basis over the expected economic life. A corresponding liability is also established, and each lease payment is allocated between such liability and interest expense. Operating lease payments are charged to expense in the periods in which they are incurred.

Income Tax

Income tax has been accounted for by use of a method whereby income tax expense for the period is calculated on the accounting profit after adjusting for items that, as a result of their treatment under income tax legislation, create permanent differences between that profit and the taxable income. The tax effect of timing differences that arises from the recognition in the accounts of items of revenue and expenses in periods different from those in which they are assessable or allowable for income tax purposes is represented in the balance sheet as "future income tax benefits" or "provision for deferred income tax," as the case may be at current tax rates. A future income tax benefit is only carried forward as an asset if realization of the benefit can be regarded as being assured beyond reasonable doubt.

Translation of Foreign Currency Transactions

Transactions in foreign currencies are initially measured and accounted for at the rate of exchange in effect at the date of each transaction.

Foreign currency monetary items outstanding at the balance date have been translated at the spot rate current at balance date.

Exchange differences relating to monetary items have been brought to account in the profit-and-loss account in the financial year in which the exchange rates change as exchange gains or losses, except for differences relating to plant under construction and hedge transactions.

Exchange differences arising with respect to certain items of the plant under construction have been included in the cost of acquisition.

Exchange differences on hedge transactions undertaken to hedge foreign currency exposure are, except for those related to hedge transactions intended to hedge the purchase or sale of goods or services, accounted for in the profit-and-loss account in the year in which the exchange rates change. Any costs or gains arising at the time of entering into hedge transactions are accounted for separately from the exchange differences on the hedge transactions and, unless the hedge relates to the purchase or sale of goods or services, are accounted for in the profit-and-loss account over the life of the hedge transactions.

The financial statements of foreign operations have been translated to Australian dollars using the current rate method whereby—

a. Assets and liabilities are translated at the exchange rate current at the balance sheet date.

b. Owner's equity at the date of investment, including share capital at acquisition and pre-acquisition reserves, is translated at the exchange rate current at that date.

c. Post-acquisition movements in owner's equity, other than retained profits/accumulated losses, are translated at the exchange rates current at the dates of those movements, except that where a movement represents a transfer between items within owner's equity, the movement is translated at the exchange rate current at the date that the amount transferred was first included in owner's equity.

d. Dividends distributed from retained profits are translated at the exchange rates current at the dates when the distributions were declared.

e. Post-acquisition movements in retained profits/accumulated losses arising through transfers from the profit-and-loss account and all revenue and expense items are translated at the exchange rates current at the transaction date.

Inventories

Finished goods, raw materials, and work in progress are valued at the lower of cost or net realizable value. Costs have been assigned to inventory quantities on hand at the balance sheet date using the first-in, first-out (FIFO) basis.

Cost comprises material, labor, subcontract charges, direct contract expenses, and an appropriate proportion of fixed and variable overhead.

Construction contract work in progress consists of direct labor and materials, depreciation of plant and equipment used on contracts, project overhead, plus profits recognized less provision for foreseeable losses.

The profit on construction contracts is determined in proportion to the progress on each contract (the percentage-of-completion method) measured by reference to physical estimates by engineers of the work performed to date.

Intangible Assets

Patents, trademarks, and licenses are amortized over the time it is estimated benefits will be derived from their use.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired. It is amortized over twenty years.

Land Held for Resale and Plant Under Construction

Interest on money borrowed specifically to finance land held for resale and plant under construction is capitalized up to the date of completion of each asset.

Deferred Expenditure

Items of expenditure having a benefit or relationship to more than one accounting period are amortized over the periods to which they relate.

Deferred research and development costs are amortized over the expected life of each product commencing from the date of commercial production.

Employee Entitlements

The amount expected to be paid to employees for their pro-rata entitlements for service, annual leave, and sick leave is accrued annually at current wage rates.

Service Warranties

Provision is made for the estimated liability on all products still under warranty at the balance sheet date.

2. Events Subsequent to Balance Date

After the balance sheet date, the group's 32 percent interest in its associated company Condamine Pty. Limited has been sold for a cash consideration of A$1,562,000. The resulting net profit of A$542,000 will be accounted for in the December 31, 1993 financial statements.

3. Operating Revenue

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Sales revenue	59,100	49,600	10,921	9,105
Other revenue:				
Interest	109	27	53	62
Dividends	141	148	280	270
Proceeds from disposals of—				
Freehold land	2,820	—	1,000	—
Plant and equipment	497	116	105	80
Patent rights	767	—	603	—
Investments	293	1,375	—	1,375
	4,627	1,666	2,041	1,787
Total operating revenue	63,727	51,266	12,962	10,892

4. Operating Profit

Operating profit before income tax has been determined after—

a. Crediting as revenue:

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Dividends:				
Related corporations	—	—	247	200
Others	141	148	33	70
Total dividend revenue	141	148	280	270
Dividends from related parties included in total dividend revenue:				
Wholly owned group	—	—	217	170
Partly owned controlled entities	—	—	30	30
Associated companies	137	106	22	18
Interest:				
Related corporations	—	—	40	50
Others	109	27	13	12
Total interest revenue	109	27	53	62

	Consolidated		Chief Entity	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Interest from related parties included in total interest revenue:				
Wholly owned group	—	—	—	50
Partly owned controlled entities	—	—	40	—
Profits from sales of noncurrent assets:				
Plant and equipment	25	9	5	2
Material transfers from provisions:				
Service warranties	50	—	—	—
b. Charging as expense:				
Interest:				
Related corporations	—	—	193	207
Others	1,235	998	337	293
Total interest expense	1,235	998	530	500
Interest expense resulting from transactions with related parties included in total interest expense:				
Wholly owned group	—	—	193	—
Partly owned controlled entities	—	—	—	207
Parent entity	187	187	85	59
Bad and doubtful accounts:				
Trade debtors—current	132	24	10	15
Other nontrade debtors (noncurrent)	100	—	—	—
Total bad and doubtful accounts	232	24	10	15
Diminution in value of investments:				
Unlisted shares in other corporations	111	100	111	100

(Continued on next page.)

	Consolidated		Chief Entity	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Diminution in value of inventories:				
Raw materials	24	30	–	–
Work in progress	108	20	–	–
	132	50	–	–
Depreciation and amortization of property, plant, and equipment:				
Buildings	160	120	110	80
Leasehold improvements	265	265	265	265
Plant and equipment	718	599	249	430
Leased assets	53	53	–	–
	1,196	1,037	624	775
Amortization of intangibles:				
Patents, trademarks, and licenses	94	100	–	–
Goodwill	9	5	–	–
	103	105	–	–
Net foreign currency exchange loss:				
Ordinary operations	147	156	10	6
Speculative dealing (gain)	–	(5)	–	–
	147	151	10	6
Research and development costs:				
Costs charged in period	125	104	–	–
Amortization of deferred research and development costs	52	46	–	–
	177	150	–	–
Material transfers to provisions:				
Employee entitlements	601	298	160	130
Lease finance charges	101	90	–	–
Operating lease rental expense	329	280	164	130

5. Abnormal Items

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Gain (Loss):				
Depreciation adjustment on reassessment of useful life of plant:	279	–	–	–
Income tax applicable	(109)	–	–	–
	170	–	–	–
Write-down of construction work in progress:	–	(329)	–	–
Income tax applicable	–	151	–	–
	–	(178)	–	–
Profit on sale of patent rights:	583	–	583	–
Income tax applicable	(227)	–	(227)	–
	356	–	356	–
Profit on sale of investments (no income tax applicable)	10	163	–	163
Profit on sale of freehold land (no income tax applicable)	200	–	–	–

6. Income Tax

The amount provided for income tax differs from the amount prima facie payable on operating profit and extraordinary items. The difference is reconciled as follows:

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Prima facie tax on operating profit—(calculated at 39%)	1,196	485	342	341
Deduct tax effect of—				
Rebatable dividends	88	73	109	133
Research and development concessions	114	109	—	—
Capital profits	92	64	2	34
Exempt income	39	25	11	3
Other items	9	4	—	3
Over provision of tax in previous years	—	53	—	53
	342	328	122	226
Add tax effect of—				
Amortization of—				
Goodwill	4	2	—	—
Leasehold improvements	103	103	103	103
Patents and trademarks	37	39	—	2
Building depreciation not allowable	9	9	5	5
	153	153	108	110
Income tax attributable to operating profit	1,007	310	328	225
Income tax attributable to extraordinary item (39%)	(368)	—	—	—
Aggregate income tax attributable to operating profit and extraordinary item	639	310	328	225

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Comprises—				
Additions (deductions) to—				
Provision for income tax	389	196	241	164
Provision for deferred income tax	268	124	98	65
Deductions (additions) to—				
Future income tax benefit	(18)	(10)	(11)	(4)
	639	310	328	225

7. Extraordinary Item

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Settlement of redundancy claim relating to close-down of paper mill	944	–	–	–
Income tax applicable	(368)	–	–	–
	576	–	–	–

8. Reserves

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Share premium account	600	–	600	–
Capital redemption	1,000	1,000	1,000	1,000
Asset revaluation	5,083	1,850	1,600	522
General	2,000	1,400	400	400
Foreign currency translation	451	754	–	–
	9,134	5,004	3,600	1,922

(Continued on next page.)

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Movements in reserves:				
Share premium account:				
Balance at beginning of year	–	–	–	–
Issue of 600,000 ordinary shares at premium of A$1 per share	600	–	600	–
Balance at end of year	600	–	600	–
Asset revaluation reserve:				
Balance at beginning of year	1,850	975	522	222
Transfer to retained earnings on disposals of revalued assets	(202)	(225)	–	–
Revaluations of noncurrent assets:				
Freehold land	1,973	996	1,018	300
Buildings	200	104	60	–
Investment in business	500	–	–	–
Patents, trademarks, and licenses	762	–	–	–
Balance at end of year	5,083	1,850	1,600	522
General reserve:				
Balance at beginning of year	1,400	1,400	400	400
Transfer from retained earnings	600	–	–	–
Balance at end of year	2,000	1,400	400	400
Foreign currency translation reserve:				
Balance at beginning of year	754	1,001		
Exchange differences arising from the translation of the net assets of self-sustaining foreign operations	(303)	(247)		
Balance at end of year	451	754		

9. Receivables (Current)

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Trade debtors	3,964	2,483	216	315
Provision for doubtful debts	320	198	15	15
	3,644	2,285	201	300
Bills of exchange and promissory notes:				
Endorsed by bank	150	100	–	–
Other	50	–	–	–
	200	100	–	–
Nontrade debts receivable from—				
Related corporations	–	–	201	60
Other	102	15	19	5
	102	15	220	65
	3,946	2,400	421	365
Included in the above are amounts receivable from the following related parties:				
Wholly owned group	–	–	165	100
Associated companies	152	24	–	–
Associated unit trust	90	10	8	5
Partly owned controlled entities	–	–	95	40

10. Investments (Current)

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Shares, at cost, listed on the stock exchange	54	–	54	–
Market value	63	–	63	–

11. Inventories (Current)

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Raw materials:				
At cost	1,486	1,982	–	–
Provision for diminution in value	124	100	–	–
	1,362	1,882	–	–
Work in progress:				
Factory—at cost	2,428	1,920	–	–
Provision for diminution in value	128	20	–	–
	2,300	1,900	–	–
Finished goods:				
At cost	4,464	2,978	1,735	1,724
At net realizable value	250	–	250	–
	4,714	2,978	1,985	1,724
	8,376	6,760	1,985	1,724

12. Other Current Assets

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Short-term deposits	50	50	–	–
Prepayments	50	30	15	20
	100	80	15	20

13. Receivables (Noncurrent)

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Nontrade receivable from:				
Related corporations	–	–	478	198
Others	75	208	25	–
Provision for doubtful accounts	–	–	–	–
	75	208	25	–
	75	208	503	198
Rights of indemnity for liabilities incurred on behalf of the Seal Trust	173	90	–	–
	248	298	503	198
Included in the above are amounts receivable from the following related parties:				
Wholly owned group	–	–	273	97
Partly owned controlled entities	–	–	205	101

14. Investments (Noncurrent)

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Government stocks and bonds:				
Unlisted—at cost	180	65	80	60
Debentures:				
Listed—at cost	253	160	60	60
Unlisted—at cost	10	10	10	10
	263	170	70	70

(Continued on next page.)

	Consolidated		Chief Entity	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Shares:				
Listed shares—at cost:				
In related corporations	–	–	342	342
In other corporations	795	700	136	50
	795	700	478	392
Unlisted shares—at cost:				
In related corporations	–	–	2,629	929
In other corporations	1,280	1,563	595	595
Provision for diminution in value	253	142	253	142
	1,027	1,421	342	453
	1,027	1,421	2,971	1,382
Total investment in shares	1,822	2,121	3,449	1,774
Options at cost:				
Listed:				
In related corporations	–	–	25	–
In other corporations	100	100	–	–
	100	100	25	–

The 1992 revaluation of an interest in a business undertaking was not made in accordance with a policy of regular revaluation.

The revaluation does not take into account any potential capital gains tax. If the investment had been sold at the balance sheet date at its revalued amount, capital gains tax of A$200,000 would have been payable.

15. Inventories (Noncurrent)

	Consolidated		Chief Entity	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Raw materials—at cost	110	50	–	–
Construction work in progress	870	634	–	–
Less: progress billings (including retention allowances)	680	500	–	–
	190	134	–	–
Land held for resale:				
Cost of land acquisition	174	174	–	–
Capitalized development expenses	52	38	–	–
Capitalized rates, taxes, and interest	64	24	–	–
	290	236	–	–
	590	420	–	–
Aggregate of cash received and receivable as progress billings (including retention allowances) and advances on construction work in progress	421	325	–	–

16. Property, Plant, and Equipment

	Consolidated		Chief Entity	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Freehold land:				
At independent valuation	4,373	–	3,218	–
At cost	–	4,520	–	3,200
	4,373	4,520	3,218	3,200
Buildings:				
At independent valuation	5,640	–	3,450	–
At cost	–	8,000	–	4,800
	5,640	8,000	3,450	4,800

(Continued on next page.)

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Provision for depreciation of buildings	–	3,000	–	1,300
Net carrying amount of freehold land and buildings:				
At independent valuation	10,013	–	6,668	–
At cost	–	9,520	–	6,700
	10,013	9,520	6,668	6,700
Leasehold improvements:				
At cost	1,685	1,646	1,685	1,646
Provision for amortization	1,092	827	1,092	827
	593	819	593	819
Plant and equipment:				
At cost	13,738	9,877	9,274	9,150
Under finance lease	1,327	707	–	–
	15,065	10,584	9,274	9,150
Provisions for depreciation and amortization of plant and equipment:				
At cost	6,989	6,421	5,305	5,104
Under finance lease	543	490	–	–
	7,532	6,911	5,305	5,104
Net carrying amount of plant and equipment:				
At cost	6,749	3,456	3,969	4,046
Under finance lease	784	217	–	–
	7,533	3,673	3,969	4,046
Total property, plant, and equipment	26,763	24,750	17,627	18,796
Provision for depreciation and amortization	8,624	10,738	6,397	7,231
	18,139	14,012	11,230	11,565

Independent valuations of freehold land and buildings were made in 1992 on the basis of estimated current market values by Mr. John Doe.

The revaluations take no account of potential capital gains tax and were not made in accordance with a policy of regular revaluation.

The useful lives of certain items of specialized plant used in the manufacture of plastic models were reassessed during the year.

17. Intangibles

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Patents, trademarks, and licenses:				
At director's valuation	1,332	—	—	—
At cost	—	940	—	20
	1,332	940	—	20
Provisions for amortization of patents, trademarks, and licenses:				
At director's valuation	—	—	—	—
At cost	—	256	—	—
	—	256	—	—
Net carrying amount of patents, trademarks, and licenses:				
At director's valuation	1,332	—	—	—
At cost	—	684	—	20
	1,332	684	—	20
Goodwill—at cost:	372	100	—	—
Provision for amortization	49	40	—	—
	323	60	—	—
	1,655	744	—	20

Director's valuations of patents, trademarks, and licenses were made in 1992 on the basis of present values of net future cash flows obtainable from their use in the business. The revaluations take no account of potential capital gains tax. The valuations were made by Mr. G.H. Green.

The revaluations have not been made in accordance with a policy of regular revaluation.

18. Other Noncurrent Assets

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Deferred research and development costs:				
Opening balance	260	230	—	—
Add: incurred during year and deferred	23	30	—	—
	283	260	—	—
Less: accumulated amortization	182	130	—	—
	101	130	—	—
Future income tax benefit	34	16	19	8
	135	146	19	8

19. Creditors and Borrowings (Current)

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Bank overdrafts	52	10	—	—
Bank loans	200	100	—	—
Bills of exchange and promissory notes	474	350	68	282
Trade creditors	1,895	1,909	156	405
Lease liabilities	92	65	—	—
	2,713	2,434	224	687
Other creditors:				
Related corporations	—	—	85	105
Others	120	95	15	52
	120	95	100	157
	2,833	2,529	324	844

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Included in the above are amounts payable to the following related parties:				
Wholly owned group	—	—	66	180
Associated companies	285	190	—	—
Partly owned controlled entities	—	—	67	149
Secured creditors and borrowings:				
First mortgage over freehold land and buildings:				
Bank overdrafts	52	10	—	—
Bank loans	200	100	—	—

20. Provisions (Current)

	Consolidated		Chief Entity	
	1992 (A$000)	1991 (A$000)	1992 (A$000)	1991 (A$000)
Dividends	350	250	350	250
Taxation	365	236	245	184
Employee entitlements	196	105	115	85
Service warranties	123	118	—	—
	1,034	709	710	519

21. Creditors and Borrowings (Noncurrent)

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Bank loans	2,500	2,600	200	200
Debentures	2,500	1,000	500	500
Other loans:				
Related corporations	—	—	58	178
Others	1,340	1,567	815	655
	1,340	1,567	873	833
Lease liabilities	942	625	—	—
	7,282	5,792	1,573	1,533
Included in the above are amounts payable to the following related parties:				
Parent entity	1,100	1,100	500	500
Partly owned controlled entities	—	—	58	178
Secured creditors and borrowings:				
First mortgage on freehold land and buildings:				
Bank loans	2,500	2,600	—	—
Charge for all assets:				
Debentures	2,500	1,000	500	500

22. Provisions (Noncurrent)

	Consolidated		*Chief Entity*	
	1992 (A$000)	*1991 (A$000)*	*1992 (A$000)*	*1991 (A$000)*
Employee entitlements	1,237	800	321	201
Service warranties	100	200	—	—
Provision for deferred income tax	1,067	799	248	150
	2,404	1,799	569	351

23. Share Capital

	1992 (A$000)	1991 (A$000)
Chief Entity—TRP (Major) Ltd.		
Authorized:		
Ordinary shares:		
15,000,000 ordinary shares of A$1 each	15,000	15,000
Preference shares:		
1,000,000 10% preference shares of A$1 each	1,000	1,000
	16,000	16,000
Issued:		
Ordinary shares:		
10,000,000 ordinary shares of A$1 each fully paid	10,000	9,400
Preference shares:		
1,000,000 10% preference shares of A$1 each fully paid	1,000	1,000
	11,000	10,400

Preference shares are cumulative and nonparticipating. They are redeemable at a premium of A$1 per share on June 30, 1996, which is the earliest date on which the company can redeem these shares.

Unissued shares for which options are outstanding: 1,000,000 ordinary shares.

Terms of issue: options exercisable at A$3 per share. Options expire on June 30, 1996.

Shares issued during period: 600,000 ordinary shares, issued at a premium of A$1 per share to acquire a 60 percent interest in Totem Enterprises Ltd.

	1992 (A$000)	1991 (A$000)
Shareholdings of outside equity interests in controlled entities		
TRP (International) Ltd.		
Ordinary shares:		
90,000 ordinary shares of A$1 each	90	90
Totem Enterprises Ltd.		
Ordinary shares:		
100,000 ordinary shares of A$1 each	100	—

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States With Auditing Standards in Australia

General Information	Answer	Comments
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, etc.?	Yes	
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	1*b.* Corporations Law and AUS 1.
c. For tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field-work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been published in *Codification of Statements on Auditing Standards.* Do generally accepted auditing standards exist in Australia?	Yes	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, are they published?	Yes				2B. Published in the *Members' Handbook.*
C. If auditing standards exist in Australia, are they similar to U.S. standards?	Yes				
D. If not, what are they?					
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?					3. The Australian Auditing Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation.
4. Do auditors confirm receivables? (AU 330)	Yes. AUP 14	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. AUP 5	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. AUP 25	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. AUP 6	✓			

Notes:

Checklist was completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards,* unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.
AARF is the Australian Accounting Research Foundation.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. AUP 15	✓			
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. AUP 15	✓			
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, extent, and timing of tests to be performed? (AU 319)	Yes. AUP 12	✓			
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	Yes. AUP 31	✓			10A,B. Although an audit committee is not currently required either by law or by the Australian regulatory bodies, AUP 31 requires the auditor to communicate material weaknesses in internal control to the audit committee if it exists.
B. If so, is the communication documented? (AU 325)	Yes. AUP 31	✓			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. AUP 17 and AUP 24	✓			
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)	Yes. AUP 16 and AUP 27	✓			12. An auditor should plan his or her audit so that the auditor has reasonable expectation of detecting material misstatements.

13. A. Does the auditor perform procedures to identify related-party transactions and their effects on the financial statements? (AU 334)	Yes. AUP 26	✓	13A. Management is responsible for the identification, documentation, and disclosure of related-party transactions.
B. If so, list the procedures.			13B. Inquire of management as to— • The names of all related parties. • Their affiliations with other entities. • The names of all pensions and other trusts and the names of their managers and trustees. • Other auditors currently involved or predecessors. • Review of minutes of meetings of board of directors and shareholders. • Review of shareholder records to determine the principal shareholders. • Review of entity's income tax returns. • Review of prior-year workpapers for known related parties. • Review of invoices from solicitors (attorneys).
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. AUP 5	✓	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. AUP 8	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. AUP 8	✓			
16. The concept of "joint auditors" in certain countries (e.g., U.K., Canada) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the U.S. Does the concept of "joint auditor" exist in Australia?	Yes		✓		
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. AUP 11	✓			

B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No. AUP 11	✓		17B. If the principal auditor is not satisfied with a subsidiary company's statements or has not received satisfactory information and explanations, he or she must qualify their report on the consolidated statements.
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. AUP 3	✓		
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)				18B. Scope limitation. Disagreement with management regarding— • Accounting policies. • Application of policies. • Compliance with policies. Uncertainty. Material departure from accounting standards. Noncompliance with relevant regulations and statutory requirements. Inadequate disclosures of material matters necessary to give a true and fair value.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	No		✓	
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes. AUS 1	✓		

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	Yes. AUP 8	✓			
B. If not, what date is used?					
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client. (*Code of Professional Conduct*, Rule 101 and its interpretations)	Yes. AUS 1, Rules of Ethical Conduct (REC) 4; AUP 32	✓			
22. Please describe any standards in Australia for which there are no corresponding U.S. standards.					22. None.

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States With Accounting Principles in Australia

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Australia? If so, are they codified?	Yes	1. Accounting principles are codified in the Accounting Standards and Statements of Accounting Concepts.
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. The Australian Accounting Standards Board (AASB).

Notes:

References to the U.S. Generally Accepted Accounting column are to sections in the *FASB Current Text*, unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
Where disclosures are noted, these may not be required for all classes of companies.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes	✓			
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	No	✓			
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. AASB 1010	✓ For property and buildings	✓ For other noncurrent assets		5A. Revaluation permitted, but only for entire classes of noncurrent assets.
B. If so, define the basis.					5B. Basis of revaluation not defined but must be consistent within a class of assets.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determinable within reasonable limits? (N35)	Yes. AASB 1015	✓			
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. AASB 1001	✓			
8. Are costs recorded when incurred rather than when money is paid?	Yes. AASB 1001	✓			

(Statement of Financial Accounting Concepts No. 5)				
9. A. Are consolidated financial statements required when one company has a controlling financial interest over another company? (C51)	Yes. AASB 1024	✓		
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	No. AASB 1024		✓	9B. Control means the ability of an entity to dominate the decision-making of another company regarding its financial and operating policies.
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	No		✓	
B. If so, list them.				
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. AASB 1016	✓		
12. Are there two methods of accounting for business combinations: the pooling-of-interests method and the purchase method? (B50)	No. AASB 1015		✓	12. Acquisitions are accounted for at cost (that is, by the purchase method). The pooling-of-interests method is not permitted.
13. Is the method used to account for a business combination disclosed? (B50)	Yes. AASB 1001	✓		13. Full disclosure is required of all accounting policies that could have a material impact on financial statements.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
14. A. Do criteria exist for treatment of business combinations as a pooling of interests? (B50)	No			✓	
B. If so, list the criteria.					
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. AASB 1013	✓			
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. AASB 1013	✓			15B. Period of amortization not to exceed twenty years.
16. Are the following disclosures made for related party transactions: (R36)					
a. The nature of the relationship?	Yes. AASB 1017	✓			
b. A description of the transactions for the periods presented?	Yes. AASB 1017	✓			
c. The amounts of the transactions for the periods presented?	Yes. AASB 1017	✓			
d. The amounts due to or from related parties at the balance sheet date?	Yes. AASB 1017	✓			
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	No	✓			

18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. Corporations Law (Schedule 5)	✓		
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? (In the U.S., guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.) (C59)	Yes. Corporations Law (Schedule 5)	✓		
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)				
a. Sales to outsiders and intersegment sales?	Yes. AASB 1005	✓		
b. Operating profit or loss?	Yes. AASB 1005	✓		
c. Identifiable assets and related depreciation, depletion, and amortization expense?	No. AASB 1005	✓		20*c.* Only the total assets for each segment are disclosed.
d. Capital expenditures?	No		✓	
e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		✓	
f. Effect of a change in accounting principle?	Yes. AASB 1005	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
21. A. Are there any requirements to disclose the effects of inflation? (C28)	No			✓	
B. If so, list the disclosures required.					
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Corporations Law (Schedule 5)	✓			
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	No. Corporations Law (Schedule 5)			✓	
B. If not, how are noncurrent assets defined?					23B. Noncurrent assets are those that will not be utilized or converted into cash within twelve months of the balance sheet date.
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes	✓			
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?	None specified				
25. Are receivables and payables not arising in the normal course of business or subject to normal trade terms recorded at an amount that takes imputed interest into account? (I69)	No			✓	

26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. AASB 1019	✓		26A. AASB 1019 does not cover livestock and forestry inventories; work in progress under long-term engineering, real estate development, or construction projects; or marketable securities.
B. If not, how is inventory stated?				
C. Is the basis disclosed?	Yes. AASB 1019	✓		
27. Does cost for inventory purposes include— (I78)				
a. Materials?	Yes. AASB 1019	✓		
b. Direct labor?	Yes. AASB 1019	✓		
c. Factory overhead?	Yes. AASB 1019	✓		
d. If the answer to *c* is yes, is an allocable share of all factory overhead included?	Yes. AASB 1019	✓		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				
a. First-in, first-out (FIFO)?	Yes. AASB 1019	✓		
b. Last-in, first-out (LIFO)?	No		✓	
c. Average cost?	Yes. AASB 1019	✓		
B. Are the same methods permitted for tax purposes?	Yes	✓		28B. LIFO is not permitted for tax purposes.
29. Is the inventory costing method used disclosed? (I78)	Yes. AASB 1019	✓		
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. AASB 1021	✓		30A. Forests, livestock, and investment properties are excluded from AASB 1021.
B. If so, is an accumulated depreciation account used?	Yes. AASB 1021	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
31. Are disclosures made of— (D40)					
a. Depreciation expense for the period?	Yes. Corporations Law (Schedule 5); AASB 1021	✓			
b. Balances of major classes of depreciable assets?	Yes. Corporations Law (Schedule 5); AASB 1021	✓			
c. The methods used to compute depreciation for the major asset classes?	Yes. AASB 1001	✓			
d. Accumulated depreciation, either by major class of assets or in total?	Yes. Corporations Law (Schedule 5); AASB 1021	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. AASB 1008	✓			
B. If so, list the criteria and disclosure requirements.					32B. If substantially all of the risks and benefits incidental to ownership of the leased property effectively remain with the lessor, the lease is an operating lease. If substantially all risks and benefits incidental to ownership of leased property pass to the lessee, a finance lease exists.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. AASB 1008	✓			
B. If so, list the criteria, type of lease, and disclosure requirements.					33B. See comment for question 32B.

34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. Corporations Law (Schedule 5)	✓			
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No	✓			
B. If not, how are noncurrent liabilities defined?					35B. Under Schedule 5 of the Corporations Law, noncurrent liabilities are those that are not due and payable within twelve months.
36. For notes payable, is disclosure made of— (C32)					
a. Interest rates?	No		✓		
b. Maturities?	No		✓		
c. Assets pledged as collateral?	Yes. Corporations Law (Schedule 5)	✓			
d. Covenants to reduce debt?	No			✓	
e. Minimum working capital requirements?	No			✓	
f. Dividend restrictions?	No			✓	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed-contract methods used? (Co4)	Yes. AASB 1009	✓			37A. Percentage-of-completion is the favored method. Completed-contract is used when percentage-of-completion data are not determinable.
B. If so, what are the criteria for determining the method to be used?					37B. Method of profit recognition: • The amount of profit on fixed-price contracts shall be recognized in accordance with

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
					the percentage-of-completion method when all of the following conditions are satisfied: – Total contract revenues to be received can be reliably estimated. – The costs to complete the contract can be reliably estimated. – The stage of contract completion can be reliably determined. – The costs attributable to the contract to date can be clearly identified and can be compared with prior estimates. • The amount of profit on cost-plus contracts shall be recognized in accordance with the percentage-of-completion method when all of the following conditions are satisfied: – The costs attributable to the contract to date can be clearly identified. – Costs other than those that will be specifically reimbursable under the contract can be reliably estimated. – If payment under the terms of the contract is calculated

			by reference to the stage of contract completion, that stage can be reliably determined. • If these specified conditions (whichever is appropriate to the form of contract used) are not satisfied, either at the inception of a construction contract or during the course of a contract, no profit shall be recognized until they are so satisfied.
38. A. Are research costs charged to expense when incurred? (R50)	Yes. AASB 1011	✓	38A. See paragraph 86 of text.
B. Are such costs disclosed?	Yes. AASB 1011	✓	38B. Disclosures comprise: • Amount of R&D charged to profit and loss during the year. • Amount of R&D incurred during year and deferred to future years. • Basis for amortizing any deferred R&D costs.
39. A. Are development costs charged to expense when incurred? (R50)	Yes. AASB 1011	✓	39A. See paragraph 86 of text.
B. Are such costs disclosed?	Yes. AASB 1011	✓	39B. See comment for question 38B.
40. A. In the U.S., events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future.	Yes. AASB 1018	✓	40A. For an item to be classified as extraordinary it must be both outside the ordinary operations of the business and nonrecurring.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
Do similar criteria for identifying extraordinary items exist in Australia? (I17)					
B. If not, what are the criteria?					
41. Are material events or transactions that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet the criteria for classification as extraordinary), shown as a separate component of income or expense? (I22)	Yes. AASB 1018	✓			
42. A. Are disclosures required for—					
a. Extraordinary items? (I17)	Yes. Corporations Law (Schedule 5); AASB 1018	✓			
b. Material events or transactions not classified as extraordinary items? (I22)	Yes. Corporations Law (Schedule 5); AASB 1018	✓			
c. Disposal of a segment of a business? (I13)	Yes. Corporations Law (Schedule 5); AASB 1024	✓			
B. Indicate the financial statement presentation of these items.					42B. Extraordinary items are shown both gross and net of tax after operating profit. Disposal of a significant business would normally be considered an extraordinary item. It would also appear as a disclosure in the statement of cash flows.

43. A. Are pension costs provided for covered employees over the term of employment? (P16)	No	✓		
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?				
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes. Corporations Law (Schedule 5)		✓	44A. Disclosures are required only for listed and borrowing corporations and for certain larger corporations.
B. If so, list them.				44B. Description of each plan, principal benefits, basis of contributions, whether contributions are legally enforceable, date of last actuarial assessment, name and qualifications of actuary, whether funds are available to satisfy benefits if plan is terminated, and particulars of any deficiency of funds.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I27)	Yes. AASB 1020	✓		45A,B. See paragraph 92 of text.
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	Yes. AASB 1020	✓		
46. A. Are deferred taxes determined on the basis of current tax rates? (I27)	Yes	✓		
B. If not, on what basis?				

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
47. A. Is specific information related to income taxes required to be disclosed? (I27)	Yes. Corporations Law (Schedule 5); AASB 1020	✓			
B. If so, list the requirements.					47B. Companies other than exempt proprietary companies are required by Schedule 5 of the Corporations Law to show a reconciliation if the prima facie tax on results varies by more than 15 percent from actual tax expense. AASB 1020 requires disclosure in a note of material permanent differences and the extent to which they have affected the amount of income tax expense.
48. A. Are operating losses reported on the income tax return allowed to be carried back to earlier periods? (I27)	No			✓	
B. If so, are the tax effects of a loss carryback included in the income in the period?					
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I27)	Yes. AASB 1020	✓			
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes. AASB 1020	✓			

50. Are financial statements of a foreign entity prepared for consolidated purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. AASB 1012	✓	
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. AASB 1012	✓	51. See paragraph 96 of text.
52. A. Are translation adjustments reported separately? (F60)	Yes. AASB 1012	✓	
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. AASB 1012	✓	
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Yes. AASB 1012	✓	
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes. AASB 1012	✓	
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. AASB 1012	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. AASB 1012	✓			
55. What information is disclosed about foreign currency restrictions? (F60)	None required	✓			
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto? (C59)	Yes. AASB 1002	✓			
57. Please list any standards in Australia for which there are no corresponding U.S. standards.					57. Optional revaluation of noncurrent assets as discussed in AASB 1010.

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