



# The Resource



Accountants | Business and Financial Advisers

## Segment Reporting: A Move to a New Approach



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Most CFOs will be keenly aware of the introduction of a new segment reporting standard AASB 8 Operating Segments, which applies to annual reporting periods beginning on or after 1 January 2009. For most readers, therefore, the 31 December 2009 period will be the first financial report to which the new standard applies. The key driver behind this change has been the convergence approach between US GAAP and IFRS and has been seen in some quarters as a concession by the IASB to bring the US on board.

AASB 8 adopts a 'through the eyes of management' approach which has the potential to result in different segment information being disclosed than under the previous regime. The key requirement is to identify and report operating segments correctly based upon the information that is reported to the entity's chief operating decision maker. Most readers will be familiar with the requirements of this standard; so it is worth considering what the key business impacts are.

### Complacency risk

Firstly, there is a complacency risk in assuming that there is no 'real' change and continuing to disclose segments as under the previous regime. The new standard is prescriptive in relation to the information that has to be presented. In the US, the SEC has in general been highly aggressive in their monitoring of segment disclosures and it is, as yet, unclear as to the extent of ASIC's

approach in this respect. Entities should therefore be robust in their assessments of their disclosure requirements to ensure a safety first approach is taken.

### Can segments be aggregated?

Secondly, it is important that CFOs review in detail the information that is currently being provided to the chief operating decision maker, and determine which elements constitute a segment and to what extent they can be aggregated. AASB 8 contains reasonably strict criteria in relation to aggregation. For example, finance functions commonly provide exploration reports to the Board in relation to areas of interest which may be prospective for different resources and which exceed the quantitative thresholds in the standard. AASB 8 states that these areas of interest may only be aggregated where they exhibit 'similar economic characteristics' and where the segments are similar in terms of the nature of the product and the production processes applied. It is arguable that areas of interest which constitute segments but are prospective for different resources cannot be aggregated under the new rules.

A planning issue also arises in that the segment identification process is not just limited to the current period as comparatives also have to be restated. Therefore, entities should allow sufficient time for this process in their half-year or full-year planning.

### Presentation of non-GAAP measures of performance

Thirdly, entities have to report the measure of segment profit or loss as presented to the chief operating decision maker which may or may not correspond to the profit or

loss calculated under normal GAAP. Under these circumstances, reconciliations will need to be presented of any differences between the segment information and the financial information disclosed elsewhere in the financial statements.

### Consequential impacts

Finally, there are consequential impacts of the changes upon other accounting standards. One issue relates to impairment of goodwill. AASB 136 requires each cash-generating unit to which goodwill is allocated to not be larger than an operating segment. This means that impairment is assessed on a pre-aggregation basis, in contrast to the previous regime which was on a post-aggregation basis where goodwill could not be allocated to a CGU larger than a primary or secondary segment. This could potentially impact upon the level of impairment losses being booked.

We encourage CFOs to consider the impact of the above upon their financial reporting. With the second wave of AIFRS, however, segment reporting represents one issue out of some major changes that are either currently operative or in the new standards pipeline. If you have any queries in relation to this, or other financial reporting areas, please contact your HLB Mann Judd advisor.

The Resource is a periodic newsletter, which has been established for the benefit of our clients and associates in the Resource Sector. Our objective is to report on current financial and taxation issues impacting the resource industry and provide up to date, relevant, helpful and thought provoking information and discussion.

Should you have any enquiries, or require clarification for further information in relation to any of the matters raised in this issue, please contact any of the authors of these articles or your HLB Mann Judd Advisor.

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# Proposed Research and Development Tax Changes and Mining



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The mining industry could be hit hard by changes to the taxation treatment of Research and Development (R&D) expenditure after exposure draft legislation was released on 18 December 2009. The proposed changes, to be effective from 1 July 2010, are more severe than those alluded to in the 2009/2010 budget and the subsequent consultation paper.

If adopted, these restrictions will significantly undermine the benefits available to many mining businesses.

Historically, mining companies have been amongst the largest claimants of the R&D tax concession. Companies in the mining sector have also been extremely successful in commercialising the results of R&D providing material benefits for the Australian economy.

The proposed R&D program has moved away from the broader, market driven research and development criteria and is to be focused predominantly on companies that undertake pure or applied research. The program appears squarely aimed at subsidising research and development that creates 'spill over' benefits for other firms in the economy.

Currently mining companies are eligible to claim R&D expenditure incurred in undertaking R&D trials, despite the fact that these costs are also incurred as part of commercial operations (that is, drill and blast costs, overburden removal cost, etc). It is often essential to incur such costs in order to demonstrate the overall success or failure of the R&D activities.

By limiting eligibility, the options proposed by Treasury to rein in R&D expenditure may provide insufficient incentives for companies to undertake R&D activities. They could potentially cause a company to reconsider claiming the R&D tax credit due to the administrative burden associated with claiming compared to the financial benefit it would receive.

The new R&D tax credit will be a two tier broad-based credit system.

A refundable tax credit equal to 45% of expenditure on R&D will be available to small to medium-sized companies with an annual turnover of less than \$20 million.

This significant improvement over the current scheme represents a doubling of the current support. Companies in tax loss positions will also be able to 'cash out' the benefit regardless of the size of their claim, as long as their group turnover does not exceed \$20 million.

For companies that exceed the \$20 million turnover threshold, a non-refundable tax credit equal to 40% of expenditure on R&D will be available. As the tax credit will be non-refundable to companies with a group turnover of more than \$20 million, it is widely expected that the credit will be able to be carried forward by companies in a tax loss position. This is equivalent to a return of 10% for every \$1 spent of R&D, up from the current 7.5%.

With the introduction of the R&D tax credit, the complex 175% premium concession and international premium will be abolished from 1 July 2010. This means that the 2009/2010 income year will be the last opportunity for companies to access the 175% premium concession and international premium.

Important considerations for mining companies now include determining whether there may be scope to legitimately maximise their R&D claims before the tightening of the definition of R&D activities. Companies with increasing levels of R&D expenditure may also wish to bring R&D spending forward to take advantage of the 175% premium concession before it ends on 1 July 2010.

Similarly, it may be more beneficial for some companies to postpone their R&D activities legitimately until the new scheme commences. In any case, now is the time to be thinking strategically about these issues.

It is imperative that companies currently claiming R&D assess the adverse impact of changes and make sure they are ready to maximise claims and be prepared from a compliance perspective.

To discuss the issues raised in this article further, please contact Peter Speechley, Partner, Business Advisory Services ([pspeechley@hlbwa.com.au](mailto:pspeechley@hlbwa.com.au)).

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