RUNNING HEAD: AUDIT

Effects of misstatement of various financial events

[Name of Student]

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***Event 1***

Macquarie has undertaken a new transaction in Spanish renewables’ sector with a € 38 million debt investment in a portfolio of solar farms. These portfolios are owned and managed by Q-energy that is a leading firm in management of renewable energy sector in Europe. The total capacity installed for this system is 13.6 MWp and is backed by 21-year amortising, senior secured bonds and an interest rate swap facility provided by Goldman Sachs international. Concealing this transaction will affect the financial statements of the group.

***Why should auditors consider it?***

This transaction is material in terms of its size and will affect all the financial statements made by it.

***Accounting Standard***

The transaction will be guided by the AASB 9 that covers the reporting of financial assets and financial liabilities. Being a debt investment, this transaction creates a financial liability in terms of debt financing. An entity shall recognize a financial asset or financial liability in its statement of financial position when an entity becomes a party to the contractual provisions of this instrument. This aspect applies to the Macquarie group because it is a part of the settlement that has taken place in this transaction. AASB 10 will also be applicable to this scenario because the entity will consolidate information from all the groups or subsidiaries. This accounting standard will be applicable to interests in subsidiaries, associates and joint ventures which are accounted for in accordance with AASB 10. Any derivatives shall also be identified under this standard unless these derivatives are specified as equity instruments under AASB 132. There will be certain concerns of companies while implementing AASB 9. Since Macquarie group includes a bank as well, it will have to shift its product lines depending on the duration, rating and guarantee, some of its products may lose their profitability. Since the event is concerned with the group as a whole, there will be different concerns related to application of this standard. Some major concerns include increased costs and complicated calculations that have to be done to find out values of assets and liabilities. A large number of organizations are finding it tough to develop systems that are necessary for implementing this standard (aasb.gov.au, 2010).

***Recognition of liability***

All financial liabilities are measured at an amortised cost except for derivatives. An entity will not be able to change the basis of measurement once selected (ifrs.org, 2019).

***Presentation of Consolidated Statement***

AASB 10 states that a parent company does not need to file consolidated financial statements if all its owners do not have any issue if it does not represent consolidated financial statements. Debt or equity instruments are not traded in any stock exchange. Its financial statements are not filed with Securities and Exchange Commission. Any of its subsidiaries produces financial statements that are available for public use and comply with IFRSs. Since Macquarie does not fulfill these conditions, it has to make and publish consolidated financial statements (aasb.gov.au, 2016).

***Effects of misstatement***

Failure to record this transaction in the financial statements will affect both assets and liabilities of Macquarie group. Both these figures will be understated if this event is not disclosed (Day & Psaros, 1996).

***Balance-related audit principle***

Auditors will apply accuracy as a balance related principle in this case to see if the value of assets and liabilities from acquired firm have been accurately stated or not (facweb, n.d.).

***Event 2***

An agreement has taken place between Green investment groups to purchase 40% stake in Iberdrola’s Scottish power Renewables’ 714 MW farm. This partnership will be first between GIG and Partner Company in the UK. Macquarie and GIG have now owned 50% of offshore wind capacity in the UK. This transaction will ensure that GIG’s commitment prevails with wind-based energy resources. AASB 3 will be applicable in this situation that is related to business combinations. The date of agreement is 12th August 2019. The assets acquired and liabilities assumed in this case make up business for company because it has been involved in renewable energy sector. GIG will have to classify and designate assets and liabilities assumed as necessary to apply to other accounting standards of Australia. These assessments will be done on the basis of terms of contract, economic conditions, operating and accounting policies and any other relevant condition that may affect this acquisition.

The assets and liabilities have to be identified at fair values at the date of acquisition. This accounting standard is not applicable to any assets that have been valued under any other accounting standard which are different from the valuation principles used in this standard. Another exception pertains to situation where assets have been valued based on an amount other than fair value at acquisition date. An example can be given regarding contingent assets and liabilities. A contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed by occurrence or non-occurrence of one or more future events which are not under complete control of the entity. If there is a deferred tax asset or liability arising out of a settlement, this will be identified under AASB 112. Any assets or liabilities arising from employee benefits will be considered under AASB 119.

***AASB 3***

This standard will provide a new model for classifying and measuring financial assets and liabilities. There have been little changes made to the way financial liabilities are measured. There are some decisions that have to be made by entities which will have considerable effects on financial statements of the organization. The cost exemption that was available under AASB 139 will not be available to companies under this standard. This will compel companies to identify fair value for all equity investments by applying AASB 13.

There are four major characteristics in any acquisition method, identifying the acquirer, determining the date of acquisition, identifying assets required and liabilities assumed as a result of acquisition. A goodwill or gain from the transaction should also be measured (aasb.gov.au, 2015). All these aspects have been fulfilled in the transaction so this will be treated as a business combination. Users of financial statement should be able to evaluate financial effects of adjustments recognised in current reporting period which are related to business combinations which took place in current or past accounting periods (aasb.gov.au, 2015).

***Effects of misstatement***

Failure to include this even in disclosure will affect all balance sheet items because there will be assets and liabilities acquired from the acquired firm. These items should be shown as part of financial statements of the acquirer.

***Balance Related Audit Principle***

Auditors will apply classification as their balance related objective to see if assets and liabilities arising from mentioned combination have been correctly classified. This principle will also apply on direct and indirect expenses of the consolidated financial statements (I.Lessambo, 2018).

***Event 3***

Macquarie infrastructure and real Assets agrees to acquire BARD offshore 1 which is a North Seawind farm owned by Ocean Breeze Energy. This project provides approximately 463000 households with cleaner electricity each year (Gallagher, 2019). This situation requires for the application of AASB 3 that relates to business combinations. There is an acquirer which is the subsidiary of Macquarie group. The acquisition date is 7 August 2019. As on acquisition date, acquirer should identify assets acquired and liabilities assumed other than goodwill. AASB 3 will be applicable in this situation that is related to business combinations. The date of agreement is 12th August 2019. The assets acquired and liabilities assumed in this case make up business for company because it has been involved in renewable energy sector. GIG will have to classify and designate assets and liabilities assumed as necessary to apply to other accounting standards of Australia. These assessments will be done on the basis of terms of contract, economic conditions, operating and accounting policies and any other relevant condition that may affect this acquisition. The assets and liabilities have to be identified at fair values at the date of acquisition. This accounting standard is not applicable to any assets that have been valued under any other accounting standard which are different from the valuation principles used in this standard. Another exception pertains to situation where assets have been valued based on an amount other than fair value at acquisition date. An example can be given regarding contingent assets and liabilities. A contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed by occurrence or non-occurrence of one or more future events which are not under complete control of the entity. If there is a deferred tax asset or liability arising out of a settlement, this will be identified under AASB 112. Any assets or liabilities arising from employee benefits will be considered under AASB 119.

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***Why will auditors check application of standard?***

Information regarding business combination will be included in financial statements so that users are able to evaluate the nature and financial impact of any business combination. Business combination events may occur during financial year or after its end but before publishing financial statements.

***Effects of misstatement***

Failure to state this event will affect the overall business position in the eyes of various stakeholders especially those related to firm acquired. Macquarie group will also understate its assets and liabilities if it does not show the event in its statements.

***Balance related principles applied***

Auditors will apply existence and accuracy as their balance related audit principles. Existence will show whether the amounts recorded in financial statements do exist in actual whereas accuracy will show whether these amounts have been accurately recorded in financial statements or not.

***Event 4***

Macquarie bank has announced that it will stop charging international transaction fee on any international transaction on credit cards (Fleeting, 2019). This will include blocking credit cards registered under gambling and lottery merchant code. Fee received on overseas cash withdrawals on Macquarie credit cards will not be charged any more. Interest rate on advance made from credit cards will be decreased to match the purchase interest rate on these credit cards. This event took place dated 27 June 2019. This event is subject to the revenue recognition aspect and AASB 118 is applicable to it. Any amount is considered as an income if it increases economic benefits during reporting period with some inflows or increase in asset’s value. Revenue is that part of income that arises during ordinary business of organization. Revenues come in many names, sales, fees, interest etc. This standard applies to all businesses which are required to prepare their financial statements under corporation’s act. This standard is applicable to the rendering of services which is done in this event. Rendering of services include performance by an entity of a contractually agreed task over a specific period of time. The contract or service under consideration relates to more than one periods of financial reporting.

***AASB 118***

Revenue will be measured at fair value of consideration received or receivable. The step taken by company will decrease its revenue and will affect its financial statements. The recognition criteria for each transaction is applied separately to reflect substance of each transaction.

***Effects of Misstatement***

Company’s income statement will be affected if it does not include this event appropriately because revenues have decreased as a result of this event. Some of these fees may have been receivable, if company decides to write it off, this event will also affect its balance sheet.

***Balance related audit principle***

Auditors will apply completeness as their balance related principle to check whether the above event has been accounted for completely or not. This will require a thorough analysis of the revenue and assets section of financial statements.

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