ASIC scores another scalp

The Australian Securities and Investments Commission has scored another accounting scalp, with Prudential Investment Company of Australia reversing an accounting treatment that saw them overstate their net income in the December 2002 half-year financial statements.

Action by the corporate regulator means the company has reported a loss in its revised accounts instead of the profit it reflected in the financial statements prior to the ASIC's intervention.

Prudential failed to continue amortising an intangible asset – management rights – because it took the view that the asset's value was understated. The company just stopped amortising rather than revaluing the intangible asset.

No charge hit the bottom line in the first set of financial statements the company issued to the financial market. Had the company revalued the asset it would have ended up with a larger amortisation charge hitting the bottom line.

Charges against revenue were reduced by about $208,777 and the failure to book this amount properly meant the company recorded a profit.

"ASIC was of the view that the decision not to amortize the management rights was contrary to Accounting Standard AASB 1021 on Depreciation," the media release from the commission states.

Prudential told the market it believed the previous accounting treatment was appropriate because of valuations of management agreements that were being undertaken by competitors in the market place.

"The company has been reviewing its balance sheet position relative to certain practices concerning the valuation of management agreements undertaken by its competitors," the company told the market in a letter released via the Australian Stock Exchange. "Your Company has amortised these agreements for some years now. We recently resolved, in consultation and agreement with the auditors, to place the company on a similar footing to its competitors by ceasing to amortise the agreements at the 31 December half year."

The decision to not amortise the management agreements followed the attainment of knowledge by Prudential that "credible experts believe that management agreements in today's market are valued at an average of $1.50 to $1 of revenue".

The company says it will defer any changes to amortisation policies in the "interests of good corporate citizenship".

"In doing so the directors will obtain an independent accounting advice to assist them in assessing the carrying value and useful life of the management agreements."

One of Prudential's fellow listed companies, Lend Lease, has been amortising management agreements since the issuance of Accounting Interpretation 1 dealing with the depreciation of intangible assets.

In its June 2002 year-end financial statements Lend Lease continues to amortise the management agreements in accordance with accounting standards issued in Australia. The company does, however, note accounting developments in both the US and the international arena where the new business combinations literature would permit such assets to be tested for impairment each year and written off only when impairment occurs.

Lend Lease's notes to the June 2002 financial statements say the company is far more comfortable with the US literature on intangible assets.

"The Australian Accounting Standards Board (AASB) has tentatively agreed that the requirement to amortise goodwill should be removed and replaced with an impairment test for goodwill," Lend Lease states. "The Directors of Lend Lease agree with SFAS142 as the impairment test reflects economic reality unlike the current Australian standard which requires a charge to the profit and loss irrespective of the underlying performance and value of the assets currently subject to amortisation charges."

The company states it complies with the existing Australian accounting pronouncements in this area.

This article was supplied by Tom Ravlic. Tom is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.