

Financial Reporting and Accounting Guide

July 2021

Changing the Financial Year of a Company

This publication provides a high-level summary of the implications of section 323D of the *Corporations Act 2001* and ASIC Corporations (Synchronisation of Financial Years) Instrument 2016/189, which permits a company, registered scheme or disclosing entity to change its financial year, subject to certain conditions being satisfied.

Prescribed length of a financial year

In accordance with section 323D of the *Corporations Act 2001*, the first financial year of a company, registered scheme or disclosing entity starts on the day on which it is registered or incorporated, and lasts for 12 months or a period determined by the directors (being shorter, or longer, than 12 months but not longer than 18 months).

Each subsequent financial year (i.e., a financial year after the first financial year) of a company, registered scheme or disclosing entity is 12 months in length, unless the directors have determined that the financial year is to be shorter or longer (by no more than 7 days). This '7-day rule' was introduced to enable companies with week-based internal reporting to adopt a 52-week financial year.

Changing the financial year to synchronise with a foreign parent entity

A foreign parent may be required (under foreign law) to cause the financial year of a company, registered scheme or disclosing entity to be changed, for the purpose of synchronising its financial year with the financial year of the foreign parent.

To facilitate this synchronisation, ASIC Corporations (Synchronisation of Financial Years) Instrument 2016/189 permits the company, registered scheme or disclosing entity to change its financial year (other than in accordance with the requirements of section 323D of the *Corporations Act 2001*), subject to the conditions specified in the instrument being satisfied.

Changing the financial year by applying the relief afforded by ASIC Corporations (Synchronisation of Financial Years) Instrument 2016/189, is available where both of the following apply:

- (a) the company, registered scheme or disclosing entity (or director of the entity) reasonably believes that:
 - (i) the foreign parent was required by the foreign law to cause the financial year of the company, registered scheme or disclosing entity to be changed; and
 - (ii) the financial year of the company, registered scheme or disclosing entity has been changed in accordance with that requirement; and
- (b) the 'transitional' financial year is no longer than 18 months.

If the financial year is changed by applying the relief afforded by ASIC Corporations (Synchronisation of Financial Years) Instrument 2016/189, the financial report prepared for the 'transitional' financial year must include a brief statement as to the relief provided by the instrument.

Changing the financial year for other reasons

A company, registered scheme or disclosing entity may wish to change its financial year for reasons other than those outlined above.

Section 323D of the *Corporations Act 2001* permits a company, registered scheme or disclosing entity to change its financial year, subject to the following conditions being satisfied:

- (a) the 'transitional' financial year is less than 12 months;
- (b) there has not been a period during the previous 5 financial years in which there was a financial year of less than 12 months; and
- (c) the change to the financial year is made in good faith in the best interests of the company, registered scheme or disclosing entity.

Limit on the length of the 'transitional' financial year

If the financial year is changed by applying the relief afforded by ASIC Corporations (Synchronisation of Financial Years) Instrument 2016/189, the 'transitional' financial year may be longer than 12 months (but not longer than 18 months).

In contrast, if the financial year is changed by applying the requirements of section 323D of the *Corporations Act 2001*, the 'transitional' financial year must be less than 12 months.

Notifying ASIC of the change of financial year

A change of financial year, in accordance with section 323D of the *Corporations Act 2001* or ASIC Corporations (Synchronisation of Financial Years) Instrument 2016/189, does not require the consent of ASIC. However, ASIC must be notified of the change.

Further information and assistance

Contact Pitcher Partners for further information and assistance on changing the financial year of a company, registered scheme or disclosing entity under section 323D of the *Corporations Act 2001* or ASIC Corporations (Synchronisation of Financial Years) Instrument 2016/189.

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