

TOP
5
CONSIDERATIONS
for CIOs

Balance sheet considerations for digital transformations

Capitalisation of costs

To capitalise or not?

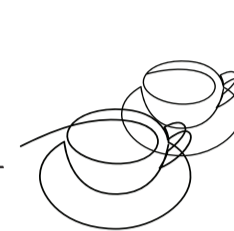
that is the question

Understanding the difference

is key to your business

A Deloitte survey found 90% of CFOs and finance executives believe **capitalising costs significantly impacts** critical financial metrics like EBITDA and asset turnover.

Bottom line: It is essential to determine whether digital transformation costs should be capitalised or expensed, impacting the balance sheet and financial ratios while requiring adherence to accounting standards.



Asset Recognition and Valuation

Understand the value

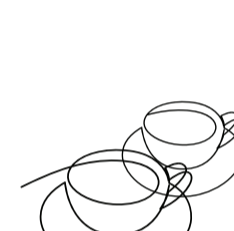
you are creating for your business

Recognise the impact

of your transformation on the business's performance

Digital transformation projects often create or acquire intangible assets like software, patents, or customer databases. Proper recognition and valuation of these assets on the balance sheet is crucial for accurate financial reporting and compliance with accounting standards.

Bottom line: It's not just a software deployment. A Gartner study revealed that capitalising software development costs allowed a major multinational to improve its return on assets by 5% over three years, highlighting the financial benefits.



Impairment Testing

Intangible assets carry

recognised value on the balance sheet

How does that value change

over time?

Bottom line: Stay close to this as a report by EY indicated that 72% of global companies reported impairment charges in 2022 due to changes in market conditions, highlighting how economic shifts can lead to significant impacts on the balance sheet through impairment charges.

After 30+ years of experience...

“ As a CIO your two best friends are your CFO and HR Director. Why? Because most of your decisions will impact the company's finances or people. Both of which can hurt you and the company reputationally—so keep 'em close. ”



Lease Accounting

Leasing something in the cloud?

Treatment of these assets

is critical

Intangible assets are subject to impairment testing to ensure that their carrying value on the balance sheet does not exceed their recoverable amount. Changes in market conditions or the business environment can lead to impairment charges, impacting the balance sheet.

Bottom line: Know your local rules and standards. The Australian Accounting Standards Board implemented AASB 16 (effective January 2019) which requires lessees to recognise lease liabilities and right-of-use assets for leases >12 months on balance sheets.



Disclosure Requirements

Report your transformation correctly

Shareholders must see

you are investing to stay relevant

Bottom line: Non-compliance can incur legal and financial penalties from regulatory bodies like ASIC, damaging the company's reputation and investor trust. Incomplete disclosures reduce transparency, deter investors, affect stock prices, and obscure financial health, leading to poor stakeholder decisions and even triggering audits, investigations, and costly corrections.



Like to delve into, dissect or draw on my experience over a coffee—let's set up a time...

