Q3 and Q4 2012 Out of Period Adjustments

Purpose

The purpose of this Learn Once, Globally is to outline some of the lessons learned as a result of out of period adjustments identified. A selection of out of period adjustments identified in the second half of 2012 are summarized briefly below and accompanied by a lesson learned as a result of the adjustment.

Q3 and Q4 2012 Out of Period Adjustments

1. Timing of Expense Recognition – A Brink's subsidiary had excess VAT credits that they wanted to sell to other tax payers, as they did not expect to be able to use these credits in the near future. Selling these VAT credits required local government approval. The subsidiary hired a third party broker to help obtain government approval for the sale and agreed to pay the broker a 12% fee if the broker was successful. In Q2 2012, the subsidiary recorded the expense relating to these broker fees. However, the broker had not yet shown evidence that they would be successful in helping the subsidiary to obtain approval. Therefore, the subsidiary should not have recorded the expense in Q2 2012. In Q3 2012, the subsidiary did obtain approval with help from the broker. The broker fees should have been expensed in Q3 2012.

   Lesson Learned – Expenses should be recognized when incurred. As the broker fees would only be paid if the broker was successful in obtaining government approval, the subsidiary should not record the expense until the expense was actually incurred (when the broker completed their services by obtaining the required government approval).

2. Impairment of Capitalized Software – A Brink's subsidiary had capitalized software development costs relating to a project they had been working on since 2009. In Q1 2012, the project was suspended and all assets relating to this software development project were taken out of service and were not expected to be placed in service again. In Q3 2012, the assets were written off. The assets should have been written off in Q1 2012 when they were first taken out of service and it was determined that they would not be placed back into service again.

   Lesson Learned – A detailed analysis of the future plans for these assets should have been completed at the time the assets were initially taken out of service to ensure the impairment was recorded in the correct period.

3. Capitalization of Fixed Assets – A Brink's subsidiary has been working on a long-term project in which the costs incurred during the preliminary stage had been appropriately expensed. During Q3 2012, a portion of the project had progressed into the development stage. Costs incurred during this stage were expensed but should have been capitalized to PP&E. A detailed review of project

charges was not performed until late in the 3rd quarter close process and adjustments to capitalize these costs were not recorded until Q4 2012.

Lesson Learned – When working on a long-term project, it is important to closely monitor the status of the project and costs incurred to evaluate when costs should start being capitalized to PP&E.

4. Accrual of non-income tax expense – A Brink's subsidiary is obligated by law to pay a tax equal to 1 - 5% of billings for services rendered to certain customers. This tax had been accounted for on a cash basis since it became effective in 2006 (expense recorded when paid, not when incurred). Based on a review performed in Q4 2012, it was determined that the subsidiary had an unrecorded liability for the taxes that had been incurred but not yet paid.

   Lesson Learned – Expenses should be recorded when incurred in accordance with the accrual basis of accounting under US GAAP. As the services for these customers are rendered, the related tax expense and liability should be recorded in the same period that the revenue for the services is recognized.

5. Overstated bad debt reserve – A Brink's subsidiary had included uncollected VAT billed to customers as part of its base in determining a bad debt allowance. The billed VAT amounts are not recorded as revenues but rather as liabilities to taxing authorities. Therefore, any uncollected VAT amounts reduce the amount payable to the government and do not increase the subsidiary's expense. As such, these amounts should not be included in the analysis of bad debt expense.

   Lesson Learned – VAT that is collected from customers and remitted to taxing authorities should not be included in the analysis of the bad debt allowance, since these amounts do not impact the income statement for Brink's subsidiaries.

6. Various Corrections to Fixed Assets – Two different Brink's subsidiaries identified various accounting errors relating to fixed assets in Q4 2012 upon performing a thorough review of their fixed asset accounting. Such errors included:
   - Incorrect useful lives used to depreciate fixed assets
   - Duplicate depreciation on several capital lease assets
   - Incorrect book value removed on PP&E disposals
   - Incorrect recording of inflation adjustments
   - Failure to capitalize building improvements

   Lesson Learned – All fixed asset transactions should be reviewed carefully. In accordance with Brink's accounting policies, useful lives should be reviewed annually, a physical inventory should be conducted annually, and journal entries recorded to capitalize new assets or to record disposals should be reviewed by management.