



Navigating the financial reporting requirements in for-profit private sector client documents – what you need to know

Who should read this and why?

Who? Those responsible for preparing client documents such as self-managed superannuation fund trust deeds, other trust deeds, partnership agreements, joint venture agreements or loan agreements.

Why? From 1 July 2021 the words you use in legal documents will affect the financial reporting requirements applicable to your client, if your client does not already have a legal requirement to prepare financial statements that comply with Australian Accounting Standards. This will be the case whether you create a new legal document, or amend an existing document after that date.

What is changing and when?

What is changing? References to compliance with “Australian Accounting Standards” (AAS) in constituting or other documents that require the preparation of financial statements now relate to a defined set of accounting requirements. This means for-profit private sector entities (and those assisting with the preparation of financial statements for those entities) will no longer be able to self-assess their reporting requirements.

Documents which refer to AAS will require the preparation of general purpose financial statements (GPFS), which comply with all relevant AAS. The GPFS can be either Tier 1 which comply with all recognition, measurement and disclosure requirements, or Tier 2 which comply with all recognition and measurement requirements and simplified disclosures.

The preparation of special purpose financial statements (SPFS), which allow preparers to self-assess their reporting requirements will only be permitted in limited circumstances. SPFS should only be prepared where there is a clear understanding of what users need so that the SPFS can be tailored accordingly.

What does this mean for you? If you are preparing documents for **for-profit private sector entities**, the way you draft provisions requiring the preparation of financial information will determine which financial reporting requirements will apply to those entities. This means that you must discuss your client’s financial reporting needs with them before finalising such provisions in any new documents or before making **any** amendments to existing documents (financial reporting or otherwise) from 1 July 2021.

You may need to explain the different options to your clients and outline what they mean in terms of the financial report. Not all clients will be aware that the preparation of SPFS provides a large degree of flexibility in determining the extent to which accounting standards are complied with. Some clients may wish to be more specific in prescribing the financial reporting requirements that must be complied with in their constituting or other legal document.

When? The changes will take effect for any new or amended documents from 1 July 2021.

Who? These requirements apply to **for-profit private sector entities** that do not have a legislative requirement to prepare financial statements. While these requirements **do not** currently apply to not-for-profit (NFP) entities, in the future this may change, therefore it may be useful to also consider these changes when drafting documents for entities that are currently considered NFPs.

For accounting purposes, for-profit entities are entities other than NFP entities. An NFP entity “is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.”¹

¹ The AASB is currently undertaking a project proposing to replace the definition of an NFP entity, which may in turn affect which entities are considered for-profit entities for accounting purposes. A [summary of the project](#) is available on the AASB website. Advisors should continue to engage with the AASB, including through its website, on a regular basis to ensure they remain up-to-date with any changes to Australian Accounting Standards.



If you are drafting a new document before 1 July 2021:

Objective	Wording for client document
(1) A client wants clearly defined financial reporting requirements that are not self-assessed, i.e. general purpose financial statements	Use “prepare <u>general purpose</u> financial statements that comply with Australian Accounting Standards” or “accounting standards as defined in the <i>Corporations Act 2001</i> ”
(2) A client wants flexibility in determining their financial reporting requirements	<p>Use:</p> <ul style="list-style-type: none">➤ prepare financial information as specified by the beneficiaries/partners/joint venturers➤ prepare financial statements in accordance with the directions of the trustee/partners/joint venturers <p>Avoid:</p> <p>References to terms that are undefined such as</p> <ul style="list-style-type: none">➤ “accounting standards”➤ “generally accepted accounting principles”➤ “true and fair view”

If you are drafting a new document or amending an existing document on or after 1 July 2021:

Objective	Wording for client document
(1) A client wants clearly defined financial reporting requirements that are not self-assessed	Use “prepare financial statements that comply with Australian Accounting Standards” or “accounting standards as defined in the <i>Corporations Act 2001</i> ”
(2) A client wants flexibility in determining their financial reporting requirements	<p>Use:</p> <ul style="list-style-type: none">➤ prepare financial information as specified by the beneficiaries/partners/joint venturers➤ prepare financial statements in accordance with the directions of the trustee/partners/joint venturers <p>Avoid using:</p> <p>References to terms that are undefined such as</p> <ul style="list-style-type: none">➤ “accounting standards”➤ “generally accepted accounting principles”➤ “true and fair view”

If you are interpreting the requirements of a client document on or after 1 July 2021:

Relevant clause in document	Effect of the change
(1) Prepare GPFS that comply with AAS or “accounting standards as defined in the <i>Corporations Act 2001</i> ”	No change in financial reporting – prepare GPFS
(2) Prepare financial statements that comply with AAS or “accounting standards issued by the AASB” or “accounting standards as defined in the <i>Corporations Act 2001</i> ”	Constituting or other document created or last amended before 1 July 2021: ➤ no change – prepare either GPFS or SPFS
	Constituting or other document created or amended (for any reason) on or after 1 July 2021: ➤ GPFS required
(3) Prepare financial statements that comply with “generally accepted accounting principles” (rather than referring to complying with AAS)	If the term is undefined in the document: ➤ no change – prepare either GPFS or SPFS
	If the term is defined in the document to mean AAS or accounting standards issued by the AASB or as defined in the <i>Corporations Act</i> : ➤ GPFS required
(4) Prepare financial information (rather than financial statements) that complies with AAS	No change in financial reporting – complete set of financial statements not required
(5) Prepare financial statements that comply with the recognition and measurement requirements of AAS but only those disclosure requirements considered necessary by the trustee/partners/joint ventures (ie full compliance with AAS may not be required as in example (2) above)	No change required, provided the financial statements prepared comply with the recognition and measurement requirements of AAS

How can I find out more?

- The new requirements are included in [AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities](#).
- AASB staff have also prepared a [key facts](#) document that explains the background to AASB 2020-2, which entities are affected and which entities are not and the transitional relief that may be available to entities that are no longer able to prepare SPFS.
- Contact AASB staff at standard@asb.gov.au