Removal of special purpose financial statements and the introduction of simplified disclosures – Part 2

AASB staff, May 2021

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Reminder of webinar 1

- High level overview of the changes
- Who was affected?
- What was happening?
- What if you could continue to prepare SPFS?

A recording of webinar 1 is available on the AASB website

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Plan for the session

Transition relief and options for entities who are currently preparing:

- Tier 2 – RDR financial statements
- Special Purpose Financial Statements (SPFS) which:
  - comply with ALL recognition and measurement requirements AS WELL as consolidation and equity accounting
  - do not comply with ALL recognition and measurement requirements or consolidation and equity accounting

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Poll question – what is your role?

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Effective date

- Mandatory effective date for affected entities to change their financial statements is annual reporting periods beginning on or after 1 July 2021

30 June 2022	30 September 2022	31 December 2022	31 March 2023

- Incentives for early adoption – discussed in relevant section

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Applies to for-profit **and** not-for-profit entities

Entity currently preparing Tier 2 – RDR general purpose financial statements

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Entity currently preparing RDR financial statements

Applies to for-profit **and** not-for-profit entities

~~Australian Accounting Standards – Reduced Disclosure Requirements~~ → Australian Accounting Standards – Simplified Disclosure Standard

- AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* provides presentation and disclosure requirements for Tier 2.
- No changes to reported numbers – **disclosure changes only**
- Some additional disclosures, e.g. audit fees and imputation credits.
- Reduction of disclosures in a number of areas.

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Process to prepare SD financial statements under AASB 1060 from RDR

RDR financial statements − Disclosures not required by AASB 1060 + Additional disclosures required by AASB 1060 = **Tier 2 Simplified Disclosure GPFS**

Tier 2 is the minimum level of disclosure, therefore entities may choose not to remove disclosures previously included under RDR if they are relevant to users

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Topics with different disclosure requirements

Refer to AASB 1060 key facts document for details

Disclosures not required by SD but required by RDR

- Primary financial statements
- Revenue
- Other income and expenses
- Financial assets / liabilities
- Hedging
- Lessee / lessor disclosures
- Impairment
- Share capital
- Business combinations
- Discontinued operations
- Interests in other entities

Disclosures required by SD not required by RDR

- General information
- Hedging
- Investments in associates / joint ventures
- Business combinations
- Leases
- Employee benefits
- Related parties
- First-time adoption
- Audit fees
- Imputation credits

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Transition relief available RDR → SDS

Early adoption is for reporting periods **before** 1 July 2021

Early adopt: No requirement to provide comparative disclosures for disclosures not previously included (e.g. audit fees and imputation credits).

Adopt on mandatory date: No transition relief available

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Applies to **FOR-PROFIT** entities only

Entity currently preparing SPFS that comply with:

- **recognition & measurement**
- **consolidation, and**
- **equity accounting**

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Entity currently preparing SPFS → Tier 2 GPFS (SD)

(full recognition, measurement, consolidation and equity accounting)

- AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* provides presentation and disclosure requirements for Tier 2.
- No changes to reported numbers – **disclosure changes only**

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Process to prepare SD financial statements under AASB 1060 from SPFS

(full recognition, measurement, consolidation and equity accounting)

- Review disclosure currently included in the SPFS
- Understand disclosures required by AASB 1060
- Identify disclosure deficiencies
- Prepare additional disclosures and perform an overall review of the financial statements
- Tier 2 SD GPFS

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Transition relief available SPFS → SDS

(full recognition, measurement, consolidation and equity accounting)

Early adoption is for reporting periods **before** 1 July 2021

Early adopt — No requirement to provide comparative information for disclosures not previously included

Adopt on mandatory date — No transition relief available

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Applies to **FOR-PROFIT** entities only

Entity currently preparing SPFS which DO NOT comply with:

- recognition & measurement
- consolidation, and
- equity accounting

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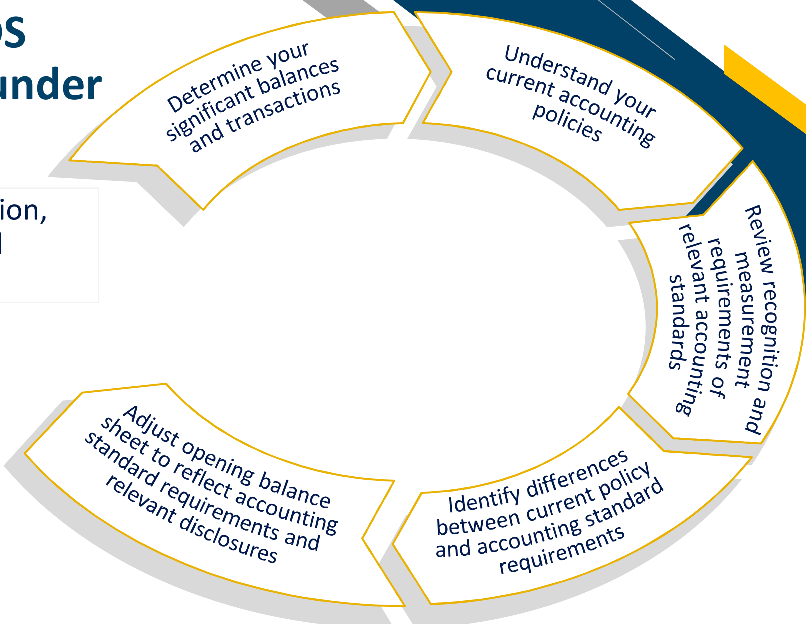
Process to prepare SDS financial statements under AASB 1060 from SPFS

(not complying with full recognition, measurement, consolidation and equity accounting)

- Changes to reported numbers



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Transition options

- Choice for preparing an opening balance sheet which complies with recognition, measurement, consolidation and equity accounting requirements in accounting standards

AASB 108 approach	AASB 1 approach
(AASB 1060.206-213)	(AASB 1060.106-108)
Apply recognition, measurement, consolidation and equity accounting in full at opening balance sheet date using AASB 108	Use mandatory and voluntary exceptions in AASB 1
Disclosure of nature of changes and adjustment for each affected financial statement line item	Explanation of the changes and an equity reconciliation at the date of transition

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Transition:
Adopt on mandatory effective date

Assume a 30 June reporter

		Restated
	30 June 2022	30 June 2021
	$	$
Income statement		☑
Balance sheet		☑
Statement of cash flows		☑
Statement of changes in equity		☑

- All adjustments to comply with recognition, measurement, consolidation and equity accounting are taken to retained earnings at 1 July 2020 – opening balance sheet date – date of transition.

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Transition relief: Adopt on mandatory effective date

- No requirement to distinguish errors from changes in accounting policies
- **Example:**
  - Financial statements have previously stated compliance with recognition and measurement requirements of AASB 116 *Property, Plant and Equipment,* however during the course of the analysis described earlier the entity realises that depreciation has not been correctly charged on a number of assets. The depreciation expense should have been $100,000 higher in prior years.
  - Additional adjustments of $106,500 are required for employee benefit and deferred tax balance transactions. Compliance with recognition and measurement was not previously stated for these Standards.
  - Applying the transition relief, the entity may disclose both these adjustments as changes in accounting policies rather than disclosing the depreciation adjustment as an error.

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Transition relief: Adopt on mandatory effective date

- No requirement to distinguish errors from changes in accounting policies
- **Example continued:**

Opening retained earnings	X
Changes in accounting policy on transition to general purpose financial statements:	
Depreciation	(100,000)
Employee benefits	(55,000)
Taxation	(51,000)
Result for the year	X
Closing retained earnings	**X**

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Transition relief: Early adoption

- Transition relief 1 – No requirement to restate comparative figures

	30 June 2021	30/06/2020*
	$	$
Income statement		
Balance sheet		
Statement of cash flows		
Statement of changes in equity		

Comparative information is not restated - reflects information in 30 June 2020 financial statements

* Prepared under a special purpose framework and does not comply with all AASB's.

- All adjustments to comply with recognition, measurement, consolidation and equity accounting are taken to retained earnings at 1 July 2020 – opening balance sheet date.
- Initial adoption date per AASB 1 is the beginning of the current year, if early adoption is applied.

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Transition relief: Early adoption

- No requirement to distinguish errors from changes in accounting policies
- **Example:**
  - Financial statements have previously stated compliance with recognition and measurement requirements of AASB 116 *Property, Plant and Equipment,* however during the course of the analysis described earlier the entity realises that depreciation has not been correctly charged on a number of assets. The depreciation expense should have been $100,000 higher in prior years.
  - Additional adjustments of $106,500 are required for employee benefit and deferred tax balance transactions. Compliance with recognition and measurement was not previously stated for these Standards.
  - Applying the transition relief, the entity may disclose both these adjustments as changes in accounting policies rather than disclosing the depreciation adjustment as an error.

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Transition relief: Early adoption

- No requirement to distinguish errors from changes in accounting policies
- **Example continued:**

Opening retained earnings	X
Changes in accounting policy on transition to general purpose financial statements:	
Depreciation	(100,000)
Employee benefits	(55,000)
Taxation	(51,000)
Result for the year	X
Closing retained earnings	**X**

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Questions and Answers

Type them into the chat box

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Need more information?

- **Recordings of webinar (part 1 and part 2)**
- **Webinar (part 3)** – Tuesday 25 May 2021, 12pm – 1pm (AEST)

Registration is available via the AASB website.

- **AASB Key Facts Documents** – AASB website under 'hot-topics'
- **AUASB Bulletin** – AUASB website under 'AUASB Bulletins' details matters for auditors to consider

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Resources

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- Pronouncements, so you can identify Standards or Interpretations applicable to a reporting period
- Staff Papers and Research Reports
- Hot Topics, including guidance & reference material on the latest Standard developments
- Outreach Events, including roundtables & forums
- Work Program & Project Summaries
- Work in Progress, such as Exposure Drafts & AASB Submissions
- Sign-up to our Weekly Update for all the latest developments!

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Thank You.

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