
# AASB Educational Session : Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)

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Australian Government
Australian Accounting Standards Board

# Agenda

- Aim of the Discussion Paper
- Entities that may be affected
- Overview of the Board’s proposal on Tier 3 accounting and disclosure requirements
- How to provide feedback and outreach
- Where to go for more information

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# The Discussion Paper: Objective

- Develop a further reporting tier (‘Tier 3’)
- Primary objective is to develop **simplified** financial reporting requirements that **meet the needs of users** of financial statements of smaller entities
  - Reducing preparation cost;
  - Improving comparability and quality of financial reporting; and
  - Consistent recognition and measurement requirements
- Consult on proposal to remove the ability to prepare special purpose financial statements for NFP entities from Australian Accounting Standards
- Stand-alone standard:
- Specify accounting requirements that are common to smaller NFP entities
- Expressed in a manner that is easy to understand
- Include guidance such as template financial statements

# The Discussion Paper – the Board does not intend to…

- Develop service performance reporting requirements as part of this Project
- Establish reporting thresholds
- Change the existing Tier 1 or Tier 2 Australian Accounting Standards
- Develop a fourth reporting tier

# The Discussion Paper - Entities that may be affected

Not-for-profit entities that may be affected by Tier 3 proposals

Tier 3 sized NFP entity with revenue between $500,000 - $3M

**Special purpose financial statements** preparers to comply with **regulatory requirements** to prepare financial statements in accordance with AAS

Gather **financial information** or prepare various **financial statements** to comply with a **regulatory direction** in accordance with R&M criteria in accordance with AAS

**General purpose financial statements** preparers

# The Discussion Paper – The Board's preliminary views on key topics

Key topics that proposes simplifications to the existing classification, recognition and measurement requirements

| | |
|---|---|
| Consolidation | A parent entity can choose to prepare:<br>• Consolidated financial statements; or<br>• Separate financial statements with information about the parent entity's significant relationships |
| Non-financial assets acquired at significantly less than fair value | Accounting policy choice:<br>• Inventory – initially measured at cost or current replacement costs.<br>• Other non-financial assets (excluding concessionary lease) measured at cost or fair value.<br>• An entity is not permitted to subsequently apply the revaluation model if the donated non-financial assets were initially measured at cost. |
| Impairment of non-financial assets | Non financial assets:<br>• Subsequently measured at cost or deemed cost are subject to impairment testing;<br>• Are assessed for impairment when the asset has been physically damaged or when its service potential is adversely affected; and<br>• Are impaired when their carrying amount exceeds the recoverable amount. |

# The Discussion Paper – The Board's preliminary views on key topics

Key topics that proposes simplifications to the existing classification, recognition and measurement requirements

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| Leases | All leases remain off-balance sheet and lease payment are to be recognised on a straight-line basis  over the term of the lease unless another systematic basis is appropriate.<br><br>Do not recognise right-of-use assets arising from concessionary lease arrangements |
| Employee benefits | Employee benefits are recognised as an expense when the employee has rendered service. All short-term and long term employee benefits to be measured on an undiscounted basis. Long service leave will reflect the probability that payment will be required. No special requirements developed for accounting of termination benefits and defined benefit plans. |

# The Discussion Paper – The Board’s preliminary views on key topics

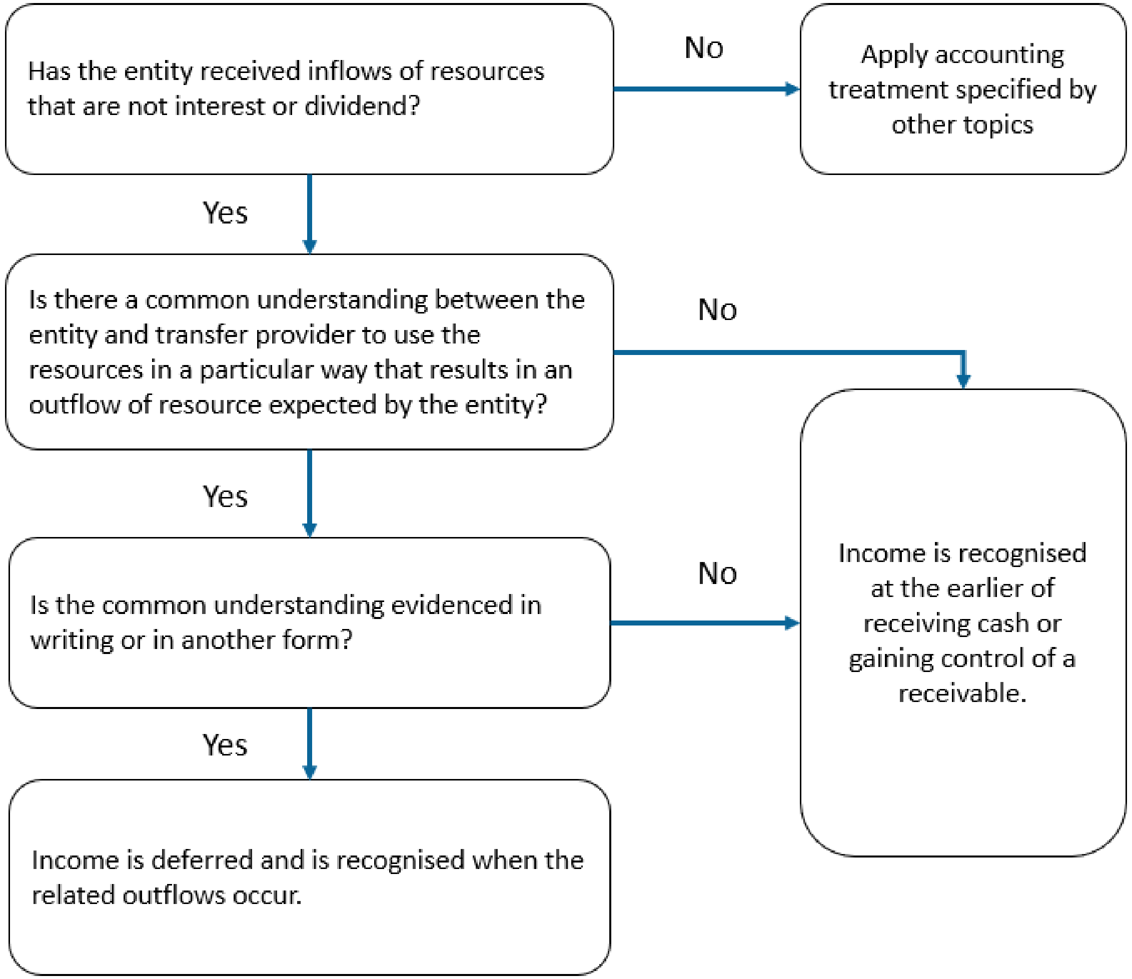
Key topics that proposes simplifications to the existing classification, recognition and measurement requirements

**Income (including revenue)**

Income is deferred when there is a common understanding that an entity is expected to use the inflows of resources in a particular way (e.g. incurring eligible expenditure for a specified purpose). Income is recognised when the related outflows occur.

The common understanding is evidenced by the transfer provider (i.e. provider of the resources) in writing or in some other form.

For all other income transactions, income is recognised at the earlier of receiving cash or controlling a receivable.



# The Discussion Paper – The Board’s preliminary views on key topics

Key topics that proposes simplifications to recognition and measurement requirements, or restrict some accounting policies

**Basic financial instruments – include only the most common financial instruments held by smaller NFP entities.**

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| *All financial instruments – initial measurement* | At fair value with immediate expensing of transaction costs. |
| *Financial assets - subsequent measurement* | • Financial assets held to generate both income and capital return, such as managed investment schemes, at fair value through other comprehensive income; and<br>• All other financial assets at cost. |
| *Financial liabilities – subsequent measurement* | Measured at cost. |
| *Interest income/expenses* | Calculated by reference to the instrument's contractual interest rate with any initial premium or discount amortised over the expected life of the instrument. |
| *Impairment* | Considered only when it is probable that the carrying amount will not be collectible. |
| *Financial assets – derecognition* | Derecognised when either:<br>• the contractual rights to the cash flows from the financial assets expire; or<br>• the entity loses control of the asset. |
| *Financial liabilities– derecognition* | Derecognised when the obligation is discharged.<br>A modification of the terms of a financial liability or an exchange of financial liabilities extinguishes the original financial liability and creates a new financial liability. |
| *Other simplification of financial instruments* | Hedge accounting is not permitted.<br>Embedded derivates and certain derivative financial instruments that are not readily identifiable and measurable do not need to be separately recognised. |

**Basic financial instruments include:**

- cash and cash equivalents;
- trade and other receivables;
- security bonds and similar debt instruments;
- term deposits and government bonds;
- units held in managed investment schemes, unit trusts and similar other investment vehicles;
- ordinary shares held in listed and non-listed entities;
- trade and other payables; and
- loans

**Specific more complex financial instruments will be covered by AASB 9 *Financial Instruments*. These may include:**

- purchased debt instruments such as listed corporate bonds and convertible notes;
- acquired equity instruments such as preference shares;
- financial guarantee contracts;
- interest rate swaps and forward exchange contracts; and
- commitments to provide a loan at a below market interest rate

# The Discussion Paper – The Board's preliminary views on key topics

Key topics that proposes simplifications to the existing classification, recognition and measurement requirements

**Changes in accounting policy/errors and changes in accounting estimates**

Voluntary changes in accounting policy and correction of prior period errors are recognised as adjustments to the current period's opening financial position rather than revising comparative financial information (i.e. using a modified retrospective basis). The Board plans to deliberate on mandatory changes in accounting policy and related transitional provisions after considering stakeholder feedback.

Changes in accounting estimates will continue to be accounting for prospectively.

**Example – reconciliations for the accounting for a change in accounting policy**

During the 20X3 financial year, XYZ Inc ('XYZ') decides to change its accounting policy for land from the cost basis to the revaluation basis. The change in accounting policy is effective 1 July 20X2.

The cost of the land is $3 million. The fair value of land at 30 June 20X3, 1 July 20X2 and 1 July 20X1 is $5 million, $4.2 million and $4.1 million respectively.

The reconciliations below illustrate the accounting for a change in accounting policy under the Board's proposals, and on a fully retrospective or prospective basis.

| Land ($mil) | Fully retrospective (AASB 108) | | Modified retrospective (Tier 3 proposal) | | Prospective | |
|---|---|---|---|---|---|---|
| | 20X3 | 20X2 (restated) | 20X3 | 20X2 | 20X3 | 20X2 |
| Opening balance | 4.2 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Change in accounting policy | - | 1.1 | 1.2 | - | - | - |
| Restated opening balance | - | 4.1 | 4.2 | - | - | - |
| Change in accounting policy | - | - | - | - | 1.2 | - |
| Revaluation increase during period (OCI) | 0.8 | 0.1 | 0.8 | - | 0.8 | - |
| Closing balance | 5.0 | 4.2 | 5.0 | 3.0 | 5.0 | 3.0 |

**Borrowing costs**

All borrowing costs are expensed as incurred.

# The Discussion Paper – The Board's preliminary views on key topics

Key topics that proposes simplifications in terminology and language only

Role of the statement of changes in equity?

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| Primary financial statements | The following financial statements form part of tier 3 GPFS:<br>• A statement of financial position (same as Tier 2, including presentation requirements);<br>• A statement of profit or loss and other comprehensive income (same as Tier 2, including presentation requirements);<br>• A statement of cash flows [using the direct method for 'operating' activities, with no need to separately present 'investing' and 'financing' activities]; and<br>• Notes to the financial statements. |
| Separate financial statements | A parent entity presenting separate financial statements can measure its interests in subsidiaries:<br>• At cost; or<br>• At fair value through other comprehensive income; or<br>• Using the equity method of accounting. |
| Fair value measurement | Definition and measurement to be consistent with AASB 13 *Fair Value Measurement.* The basis for estimating the fair value of an item will be expressed in a manner that is easier for preparers to follow.<br>Cost is an appropriate estimate of fair value for unlisted share investments when there is insufficient recent information available to measure fair value. |

# The Discussion Paper – The Board's preliminary views on key topics

Key topics that proposes simplifications in terminology and language only

| | |
|---|---|
| Inventory | Consistent with Tier 1 and Tier 2 reporting requirements:<br>• Inventory is measured at lower of cost and net realisable value; and<br>• Inventories held for distribution are measured at cost adjusted for impairment for any loss of service potential. |
| Assets held for sale | No special requirements will be developed for accounting of property, plant and equipment and other non-current assets that an entity intends to sell rather than hold for its continuing use. |
| Investment in associates and joint arrangements | In relation to the measurement of interests in associates and joint ventures:<br>• for a parent entity preparing consolidated financial statements – apply the equity method of accounting;<br>• For a parent entity preparing separate financial statements – either at cost or at fair value through other comprehensive income; and<br>• For an investor – cost at fair value through other comprehensive income in separate financial statements, in addition to preparing equity-accounted financial statements |

# The Discussion Paper – The Board's preliminary views on key topics

Key topics that proposes simplifications in terminology and language only

| | |
|---|---|
| Property, plant and equipment | Purchased and internally constructed property, plant and equipment are initially measured at cost and subsequently measured using either the cost model or revaluation model, consistent with Tier 1 and Tier 2 reporting requirements. |
| Volunteer services | An accounting policy to recognise volunteer services at fair value, if fair value can be measured reliably. |
| Other topics | The following topics would be accounted for in accordance with the New Zealand Tier 3 Standard (similar to the Tier 1 and Tier 2 reporting requirements):<br>• Foreign currency translation*;<br>• Income taxes**;<br>• Commitments (in the notes to the financial statements);<br>• Events after reporting period;<br>• Expenses;<br>• Going concern;<br>• Offsetting; and<br>• Provisions, contingent liabilities and contingent assets<br>* For foreign currency translations, entities would apply the rate at the transaction date or at the end of the reporting period for monetary assets and liabilities.<br>**Tax expenses would be based on income tax payable without any allowance for deferred tax assets or deferred tax liabilities. |

# The Discussion Paper – The Board's preliminary views on key topics

Tier 3 accounting requirement where the Board has not yet determined

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| Statement of changes in equity | The Board will determine the requirements to present a statement of changes in equity after considering feedback from stakeholders on whether the information presented in the statement of changes in equity prepared by smaller NFP entities is useful to financial statement users. |
| Intangible assets | The Board will determine the accounting for intangible assets after considering feedback from stakeholders on the extent of use and types of intangible assets relevant to smaller NFP entities |

# The Discussion Paper – Interaction with other reporting Tiers

Ability to opt up to an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards

Smaller not-for-profit private sector entities can elect to 'opt-up' (adopt) Tier 1 or Tier 2 Australian Accounting Standards entirely. However the Board has not yet decided whether to permit entities preparing Tier 3 general purpose financial statements whether:

1. To allow an entity to always 'opt-up' to a recognition and measurement accounting policy that is contained in Tier 1 or Tier 2 Australian Accounting Standards (a free choice)
2. To allow an entity to opt-up to a recognition and measurement accounting policy only when specifically permitted by the Board
3. Not permit an entity to apply any Tier 1 or Tier 2 recognition and measurement accounting policy not contained in the Tier 3 Standard.

# The Discussion Paper – Interaction with other reporting Tiers

Transactions and other events omitted from the Tier 3 Standard

Transaction, other event or condition that are explicitly scoped out from Tier 3 Standard
[omitted topic | scope exclusion]

↓ **Apply the following 'accounting hierarchy'**

Apply the classification, recognition and measurement and disclosure requirements specified by Tier 2: Australian Accounting Standards

↓ **If not addressed by Tier 2 reporting requirements**
(e.g. Business Combination Under Common Control)

Apply principles and requirements in the Tier 3 Standard dealing with similar and related transactions and events

↓ **If none identified**
(e.g. accounting for carbon emissions)

Develop an accounting policy that is consistent with the Australian conceptual framework, to the extent it does not conflict with Tier 3 reporting requirements

# The Discussion Paper – Approach to disclosure requirements

Proposed approach to determine disclosure requirements for topics covered in Tier 3 accounting requirements

**Is there a recognition or measurement difference between the Tier 2 and Tier 3 reporting requirements for NFP entities?**

- **No** → Use the disclosure requirements from AASB 1060
  - → Consider further simplification based on stakeholder feedback and benchmarking with selected overseas jurisdictions (e.g. New Zealand)
- **Yes** → Are there any comparable recognition and measurement requirements in other jurisdictions/frameworks?
  - **Yes** → Adopt the appropriate disclosure requirements from comparable jurisdictions/frameworks, and tailor for consistency with Tier 3 Standard
  - **No** → Develop fit-for-purpose disclosure requirements (e.g. use the existing disclosure requirements for topics whose requirements are similar to the Tier 3 topics as the base)

Consider the principles for development of Tier 3 accounting requirements

# The Discussion Paper – how to provide feedback and outreach

**Online survey:** https://www.surveymonkey.com/r/AASBTIER3NFP

**E-mail:** standard@aasb.gov.au

**Formal submissions:** Following publication of the Discussion Paper, written submissions by lodging online via our 'Open for comment documents' page at: www.aasb.gov.au/current-projects/open-for-comment/

**Participate in a virtual outreach session:**

- 28 October 2022
- 22 November 2022
- 7 December 2022
- 3 February 2023
- 1 March 2023

Limited in-person outreach will be planned for February 2023. Register your interest to attend these sessions here.

ENGAGEMENT

Users | Preparers | Auditors | Regulators | Legislative authorities → FEEDBACK

# The Discussion Paper – where to go for more information

**Hot Topics: Not-for-Profit Financial Reporting Framework contains:**

- the 12-page Snapshot: AASB Discussion Paper — Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities):
- online survey: https://www.surveymonkey.com/r/AASBTIER3NFP
- Registration details for the AASB outreach events
- AASB Discussion Paper — *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)*
- Research Report 10 *Legislative and Regulatory Financial Reporting Requirements*
- Other related Not-for-Profit related projects

**Access the Hot Topics: Not-for-Profit Financial Reporting Framework page here.**

# AASB Resources


- Staff papers and research reports

- Hot Topics – guidance and reference material on the latest developments in standard setting


- YouTube channel – view AASB webinars & other recordings

# Getting Involved

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| Pronouncements | ✓ identify Standards or Interpretations applicable to a reporting period |
| News & Alerts | ✓ news alerts & media releases<br>✓ weekly newsletter |
| Outreach Events | ✓ forums, roundtables, webcasts<br>✓ international guests & key experts |
| Work Program & Project Summaries | ✓ the latest developments on AASB projects |
| Work in Progress | ✓ see Exposure Drafts & AASB submissions |

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# Thank You.


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