

# THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING



1



## FINANCIAL REPORTING UPDATE 2021

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2

## What we won't cover

- ~~AASB 9 Financial Instruments~~
- ~~AASB 15 Revenue~~
- ~~AASB 16 Leases (mostly)~~
- ~~AASB 17 Insurance~~

3

## What we will cover



A new 'Tier 2'  
General  
Purpose  
Framework

Not-for-profit  
updates

Upcoming  
changes to  
accounting  
standards

IFRIC Agenda  
decisions

4

## Reporting Deadlines



- No change to ACNC deadlines
- ASIC has changed its position, and extended deadlines for 30 June 2021 by 1 month for both listed and unlisted companies
  - Listed companies must still file unaudited accounts after 2 months
  - Listed companies must make ASX announcement
- ASIC has confirmed “**no action**” **position** for AGMs
  - May be held virtually using appropriate technology
  - Shareholders must have ability to question Board
  - 2 month extension of deadline to hold AGMs for year-ends up to 7 July 2021



5



RDR TO SDS. WHAT DOES THIS MEAN?



6

## Background: Reporting Entity Concept



Update of Conceptual Framework prompts review of reporting entity concept.

*Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.*



7

## Current Tiers of Financial Reporting

| Tier   | Who does it?   |
|--|--|
| General Purpose Tier 1 – Full IFRS                         | <ul style="list-style-type: none"> <li>Listed companies</li> <li>Registered Managed Investment Schemes</li> <li>Other entities with public accountability</li> </ul>                         |
| General purpose Tier 2 – Reduced Disclosure Regime (“RDR”) | <ul style="list-style-type: none"> <li>Entities with dependent users</li> <li>Pty companies which are part of a Significant Global Entity</li> <li>Some NFPs with dependent users</li> </ul> |
| Special Purpose Financial Report (“SPFR”)                  | <ul style="list-style-type: none"> <li>Most Large Pty companies</li> <li>Some NFPs</li> </ul>  |



8

## Removal of Special Purpose Financials

Only **certain for-profit entities** are in scope of this standard\*



\*AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.



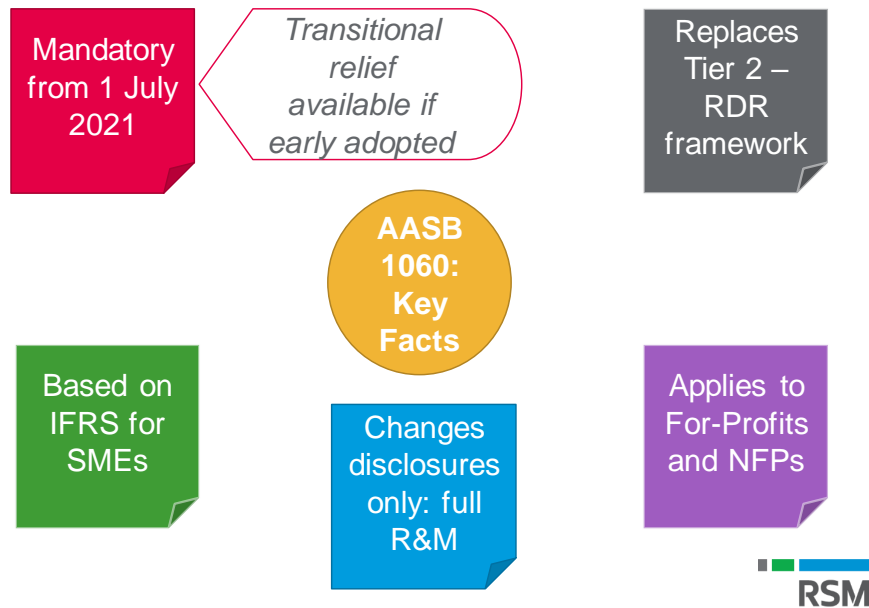
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## What does it mean for these entities?

General Purpose Financial Statements:  
Simplified Disclosure Standard – AASB 1060



10



11

## Summary impact

| Current state   | Options from 1 July 2021   |
|---|--|
| For-profit entity, currently preparing SPFS, able to continue doing so from 1 July 2021 | SPFS, with additional disclosure: why appropriate to do so, whether R&M-compliant, and consolidation and equity accounting                                       |
| Currently preparing SPFS, no longer able to from 1 July 2021                            | <ul style="list-style-type: none"> <li>- Prepare Tier 1 GPFS, full IFRS</li> <li>- Prepare Tier 2 GPFS, following <b>AASB 1060 (SDS) requirements</b></li> </ul> |
| Currently preparing Tier 2 GPFS – RDR   | Transition to Tier 2 GPFS – SDS  |
| Currently preparing Tier 1 GPFS   | No change  |
| <b>Private Sector NFPs?</b>   | <u>Optional adoption.</u><br>But additional disclosure requirements in SPFS since June 2020!   |

12

## Impact on entities preparing RDR accounts

### Many disclosures removed

#### Revenue:

- Separate disclosure of revenue from contracts with customers from other revenue and impairment losses on receivables or contract assets

#### Discontinued Operations:

- Tax expense relating to discontinued operations; and
- Cash flows of discontinued operations.

#### Financial assets and financial liabilities

- Detailed disclosures about measurement bases (accounting policy still required);
- Loss allowance recognised in relation to financial assets at fair value through other comprehensive income



13

## Impact on entities preparing RDR accounts

### Some disclosures added

#### Audit Fees

#### Imputation Credits

#### Leases:

- Lessees: maturity analysis of future lease payments;
- Lessors with operating leases: variable lease payments recognised as income; and
- Lessors with finance leases: loss allowance for lease receivables

#### Related Parties:

- Disclosure of parent-subsidary relationship by government-related entities



14

## Meanwhile, in SPFS of NFPs...

AASB 2019-4  
Amendments to  
Australian Accounting  
Standards –  
Disclosure in Special  
Purpose Financial  
Statements of Not-  
for-Profit Private  
Sector Entities on  
Compliance with  
Recognition and  
Measurement  
Requirements



AASB 1054 Australian Additional Disclosures



15

## Disclosure requirements: SPFS of NFPs

### Required Disclosures in Current SPFS of NFPs:

Why the entity has prepared SPFS

If interests are held in other entities, whether AASB 10 and AASB 128 have been applied, and if not, explain why (*or that such an assessment has not been made.*)

For each material accounting policy applied and disclosed that does not comply with all the recognition and measurement requirements: **how it does not comply** (*or that the extent of non-compliance has not been assessed.*)

Whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (*or that such an assessment has not been made.*)

16



## Transitional Provisions

### First time preparation of GPFS

- Adoption at 1 July 2021:
  - Optional relief from distinguishing errors and changes in accounting policy
- Early adoption pre-1 July 2021:
  - **As above, plus additional** optional relief from:
    - Restating comparative information
    - Providing comparative information for new disclosures



17



**WE CAN HELP!**

<https://www.rsm.global/australia/insights/ifrs-news/removal-special-purpose-financial-statements-what-you-need-know>



18



## NOT-FOR-PROFIT FRAMEWORK



19

### *ACNC Legislation Review 2018*

#### Strengthening For Purpose

- Panel set up to report to Treasury to examine the ACNC Acts after 5 years
- Aim: evaluating effectiveness of ACNC as the primary regulator of charities in Australia
- Broad in scope: primary focus is not financial reporting.



20

## ACNC Legislation Review 2018

### Financial Reporting: findings

- The current revenue thresholds for determining a registered entity's size, and the minimum reporting requirements for registered entities, are too low.
- Insufficient disclosure of related party transactions, triggering a lack of transparency of transactions that pose a higher risk to charitable assets being used for private benefit
- Lack of remuneration disclosures minimises accountability to donors, beneficiaries and public.



21

## ACNC Legislation Review 2018

### Financial Reporting: recommendations

- Change thresholds + determine on rolling three-year revenue:

| Size   | Current (yearly) | Proposed (3-year rolling) |
|--------|------------------|---------------------------|
| Small  | < \$250,000      | < \$1,000,000             |
| Medium | > \$250,000      | < \$5,000,000             |
| Large  | > \$1,000,000    | > \$5,000,000             |



22

## ACNC Legislation Review 2018

### Financial Reporting: recommendations

- Require registered entities to disclose related party transactions.
- Require large registered entities to disclose the remuneration paid to responsible persons and senior executives on an aggregated basis.



23

## ACNC Legislation Review 2018

### Government's response: March 2020

- Support for the three recommendations noted...

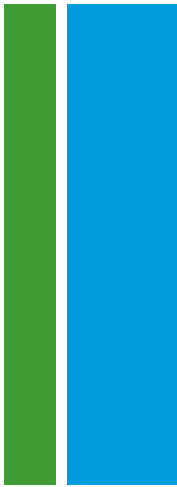
But *“the Government is consulting with states and territories on the appropriate level of revenue thresholds for minimum reporting requirements, before proceeding with legislative change.”*

- Related: change of thresholds may requires new tiers for Financial Reporting for NFPs?



24

## ACNC Legislation Review 2018



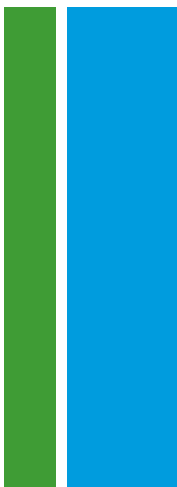
Government's response: AASB project

- Targeted consultations with stakeholders from August 2020 for a **new financial reporting framework**.
- Ongoing deliberations on design during 2021.
- Objective: issue a Consultation Paper for public consultation in Q4 2021.
- Possible implementation towards 2023-2025.  
**NOT FINALISED.**



25

## Revenue and income of NFPs



Relevant accounting standards?

AASB 1058  
*Income of Not-For-Profit Entities*

AASB 15  
*Revenue from Contracts with Customers*



26

## Practical application issues with Government Grants

### Main issues

1. “Sufficiently specific performance obligations”?
2. Dealing with “termination for convenience” clauses in grant agreements

**AASB 120 DOES NOT APPLY TO NOT-FOR-PROFIT ENTITIES**



27

## Practical application issues

### Performance Obligations in Government Grants

| Approved tenders or proposals set out...  | ... means?                          |
|---|-------------------------------------|
| General or specific <b>activities</b> the entity must undertake to achieve an output or an outcome? | <b>NOT A PERFORMANCE OBLIGATION</b> |
| Target <b>outcomes, objectives, goals, or aims</b> for the funded project?                          | <b>NOT A PERFORMANCE OBLIGATION</b> |



28

## Practical application issues

### Performance Obligations in Government Grants

| Approved tenders or proposals set out...  | ... means?  |
|---|---|
| Specific contracted <b>outputs</b> : deliverables that the NFP is contractually obligated to provide? | <b>PERFORMANCE OBLIGATION.</b><br><i>May or may not be Sufficiently Specific.</i> |



29

## Practical application issues

### Government Grants: impact in practice

- Grants often given for a **specific, restricted purpose**.
- **Purpose or a restriction on use is not a performance obligation.**

The problem: entities have had to recognise income up-front more often than hoped for under new suite of standards.



30

## Example

### Illustrating the issue

- Entity A, which provides counselling and emergency accommodation for victims of domestic violence, applies for a government grant of \$480,000.
- The application stipulates that the funding they apply for will be used to fund 2 additional counsellors' wages for 3 years, so that the activity can be delivered.
- Is there a performance obligation?**
- Employing 2 counsellors is not of itself a performance obligation.**
- In the absence of other facts, there is no performance obligation; and so no 'sufficiently specific' performance obligation.
- If income is received upfront, it is recognised upfront.**



31

## Example

### Illustrating the issue

- Year 1:
  - Income of \$480,000
  - Expenses of \$160,000
  - Net result: \$320,000 surplus
- Year 2:
  - Income of NIL.
  - Expenses of \$160,000
  - Net result: \$160,000 deficit.
- Year 3:
  - Income of NIL
  - Expenses of \$160,000
  - Net result: \$160,000 deficit
- What to do?**
  - Additional disclosure of restrictions on funding in year 1, and restricted reserve in equity,



32



## Practical application issues

### Government Grants: Termination Clauses

- Termination for Convenience clauses provide that the Commonwealth may, at any time, by providing notice to the funding recipient, terminate the contract or agreement in whole or in part.
- If the Commonwealth exercises its rights under this clause, common wording is that it will only be liable for direct costs incurred by the funding recipient which are directly attributable to the termination or partial termination.



33

## Practical application issues

### Government Grants: Termination Clauses

- Clarification by [Australian Government Solicitor](#):
  - Reason for inclusion of such clauses: *enable the Commonwealth to terminate its commitment in the event of a change of government policy or other related government exigencies.*
  - **The Commonwealth may only exercise a right to terminate for convenience in 'good faith'.**



34

## Practical application issues

### Accounting for these clauses

Does the mere inclusion of a clause which allows for the Commonwealth to terminate at any point in time, create a liability from **day 1 or only once (if) there is a request for repayment?**

Diversity in interpretation, and area of **judgement**. AASB indicated that judgement is required, based on specific circumstances.

If liability on day 1, it must follow the requirements of AASB 9: it is not “deferred income”, but a financial liability.



35

## Practical application issues

### Is AASB 1058 fit for purpose?

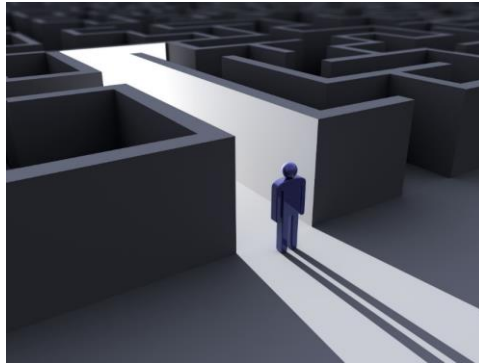
- Negative feedback received, but AASB currently showing no appetite for change
- RSM working with CAANZ and regularly liaising with AASB, to research and argue for a Standard which better reflects the economic substance of the transaction
- *Watch this space!*



36

## AASB 1059 Service Concession Arrangements: Grantors

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37

## What is captured by the standard?

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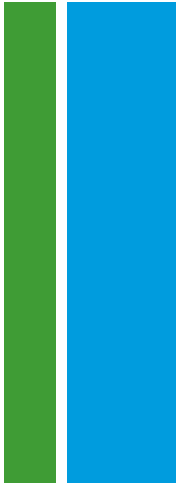
### Public sector entities only

- Became effective for public sector entities for periods beginning on or after 1 January 2020.
- Applies to the accounting for the GRANTOR in arrangements between a private entity (the operator) and a public sector entity (the grantor), in which the following is true:
  - a) Have the **right of access to an asset** which either they own, or construct, develop, upgrade, or acquire from a third party; or belongs to the grantor.
  - b) **Use the asset to provide public services on behalf of the grantor, for a specified period of time**
  - c) Be responsible for **at least some of the management of the public services** provided through the asset and **does not act merely as an agent on behalf of the grantor**; and
  - d) Be **compensated for its services** over the period of the arrangement



38

## Example situations?



### A university

- Public University = Grantor
- Accommodation building = Asset
- Accommodation provider = Operator

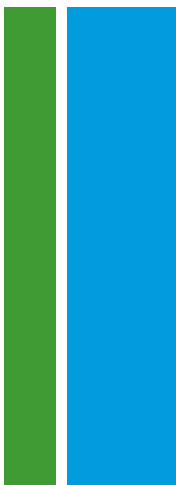
*University grants Accommodation Provider the right to earn revenue from students, in exchange for running the Accommodation Building for the University.*

*= Grant of Right to the Operator Model.*



39

## How does it work?



### Assets and liabilities

- A **service concession asset** is recognised when the grantor controls the asset.
- The corresponding **liability** is measured initially at the same value as the SCA, adjusted for any other consideration transferred between the grantor and operator.



40



## UPCOMING CHANGES TO ACCOUNTING STANDARDS

Definition of a business, classification of liabilities, and other matters



41

## IFRS 16 – COVID Concessions

- IASB has approved amendment to treatment of rent reductions due to COVID-19
  - Exemption from determining whether a COVID-19 rent concession is a lease modification
  - Account for reduction as a variable lease payment
  - Must disclose use of exemption
- Initially Applied to reductions up to 30 June 2021 directly related to COVID-19
- Recently extended to reductions up to **30 June 2022**
- **This may require some preparers to restate their comparatives for modifications up to 30 June 2022**
- No change for lessors



42

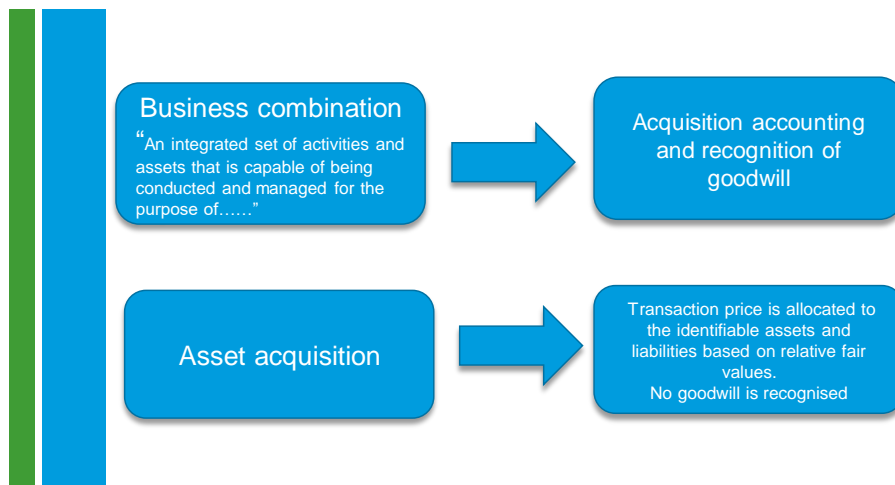
## IFRS 16 – COVID Concessions

- RSM Australia article with worked examples of changes to leases!  
[https://www.rsm.global/sites/default/files/media/Ideas%20and%20insight/IFRS/07\\_06\\_2020\\_a  
ccounting\\_for\\_changes\\_to\\_lease\\_contacts.pdf](https://www.rsm.global/sites/default/files/media/Ideas%20and%20insight/IFRS/07_06_2020_accounting_for_changes_to_lease_contacts.pdf)
- Explains the practical expedient and when it can be used
- Explains lease modifications when practical expedient not used or not available
- Worked examples of both scenarios



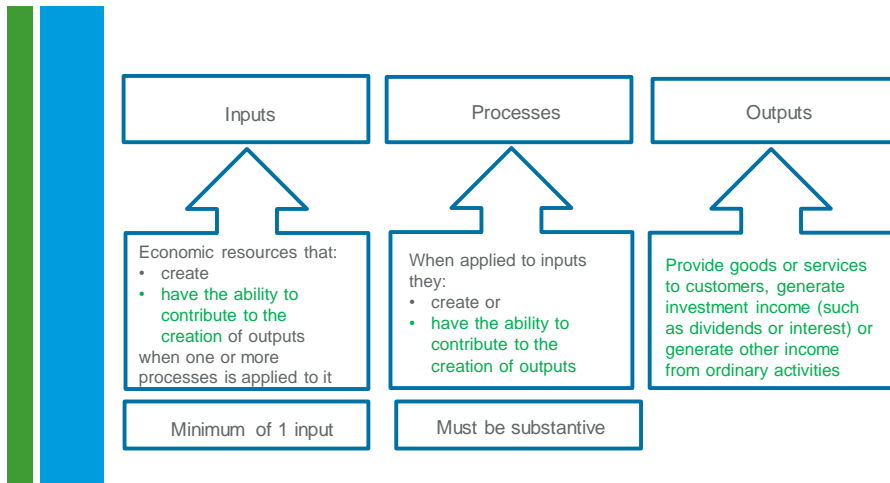
43

## AASB 3 – Definition of a Business



44

## Establishing the minimum requirements for a business



45

## Example A – acquisition of real estate

- Entity purchases a portfolio of 10 single-family homes
- Each have an in-place lease
- Each single-family home includes the land, building and property improvements
- Each home has a different floor area and interior design
- The 10 single-family homes are located in the same area and the classes of customers (eg tenants) are similar
- The risks associated with operating in the real estate market of the homes acquired are not significantly different
- No employees, other assets, processes or other activities are transferred

46

### Example A – acquisition of real estate

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**NOT A BUSINESS**

47

### Example B – acquisition of real estate

- Same facts as example A
- Except that the Purchaser also purchases a multi-tenant corporate office park with six 10-storey office buildings that are fully leased.
- Additional set of activities and assets acquired includes:
  - Land
  - Buildings
  - Leases
  - Contracts for outsourced cleaning, security and maintenance
  - Employees responsible for leasing, tenant management and managing all operational processes.

48



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### A BUSINESS

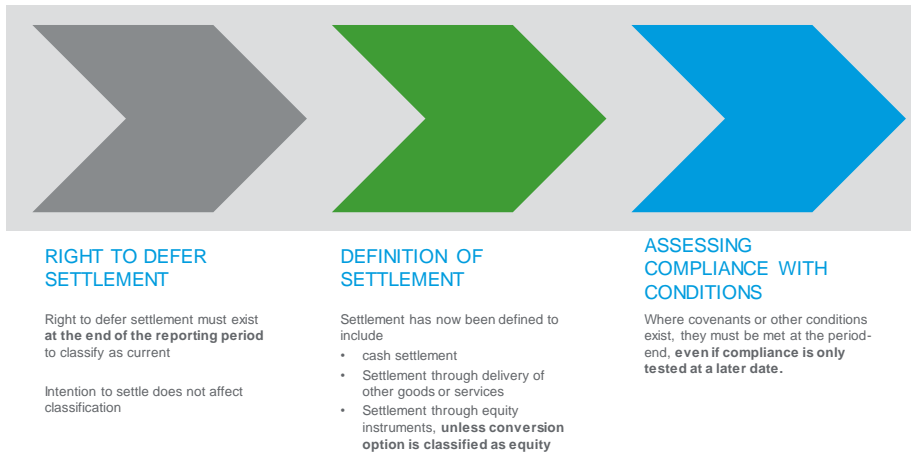
49

## Classification of Liabilities

- Aim to address current uncertainty and diversity in practice in this area
- No change to key principle – must have unconditional right to defer settlement for 12 months
- **Applies to periods beginning on or after 1 January 2023**
- Retrospectively effective. Also need to consider IAS 8 disclosures for Standards issued not yet effective. Effects are quantifiable.
- Entities may wish to early adopt or to start applying principles now

50

## Key features of changes to IAS 1



51



“The amendments only clarify, and therefore do not change any existing requirements, and so are not expected to affect companies’ financial statements significantly.”

52

## When could classification change?

### Convertible bond which converts into a variable number of shares

- 5 year term
- Conversion at the option of the holder, can be exercised at any time
- Bond in foreign currency
- Repayable if not converted

#### Current Treatment

- Not explicitly specified under IFRS
- Diversity in practice but many preparers would classify as non-current

#### Under IAS 1 (revised) after 2023

- Transfer of equity instruments is a form of settlement
- Issuer does not have right to defer this form of settlement for at least 12 months
- Classify as current



53



## IFRIC AGENDA DECISIONS

What are they and why are they important?



54

## IFRIC Agenda Decisions – What are they?

Interpretations Committee supports the work of the IASB by responding to issues submitted to it by:

- Interpretation
- Recommend improvement or amendment to IFRS Standard
- Recommend a new standard setting project to the IASB; or
- Agenda Decision

Recent agenda decisions:

- Cloud Computing (March 2021)
- Supply Chain Financing – reverse factoring (Dec 2020)
- Players' Transfer Payments (Nov 2020)
- Sale and Leaseback with Variable Consideration (June 2020)
- Deferred Tax on Investment in Subsidiary (June 2020)



55

## IFRIC - Cloud Computing

### What is the issue?

Software as a Service arrangement hosted in the Cloud, with no underlying software asset

How should configuration or customisation costs be treated?

Can an intangible asset be recognised under IAS 38?

### How was it resolved?

- The supplier controls the application software itself, so customer **cannot** recognise an intangible asset
- But what about a prepayment
  - If configuration services are “distinct” then expense should be recognised when the supplier does the customisation/configuration
  - If services are not “distinct” then expense is recognised over the software contract term
- “distinct” guidance taken from IFRS 15



56

## IFRIC - Reverse Factoring

### What is the issue?

- Bank agrees to pay an entity's outstanding debts to suppliers
- Entity agrees to pay bank at later date

Should the supply chain finance be presented together with trade payables or separately? What disclosures are required?

### How was it resolved?

- IAS 1 requires trade payables to be presented separately from other liabilities
- Trade payables are liabilities to pay for goods or services that have been invoiced or formally agreed with a supplier
- Reverse factoring may require derecognition if a liability is extinguished or substantially modified
- Entity needs to consider IFRS 7 requirements re liquidity risk, as now have exposure to one institution rather than diverse suppliers



57

## IFRIC – Sale and Leaseback with Variable Payments

### What is the issue?

- An entity enters into a sale and leaseback transaction
- Transaction meets the criteria to derecognise owned asset
- Lease payments are variable amounts which depend on the revenue of the lessee

What RoU asset should be recognised?

### How was it resolved?

- IFRS 16.100(a) requires recognition of "*right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller/lessee*"
- Initial RoU asset and lease liability calculated as:

Previous Carrying Amount x Value of RoU / FV of asset

- Lease liability recognised even though payments are variable



58

## IFRIC – Football transfer payments

### What is the issue?

Soccer club sells a player

Should this be treated as

- Revenue; or
- Gain on disposal of intangibles

### How was it resolved?

- When acquiring players, transfer fees and associated contract costs are capitalised as intangible assets
- Asset must be derecognised under IAS 38 when player is sold
- Sale of player *cannot* be recognised as revenue
- Transfer fee receipt should be shown as investing activity in cash flow statement



59



60

Thank you  
for your time  
and attention



61

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62