

# Financial reporting guide

## *Not-for-profit Private Sector Tier 3 Entities*

This publication provides a high-level summary of the new not-for-profit (NFP) private sector requirements for the preparation of Tier 3 general-purpose financial statements (GPFS) under the newly released AASB 1061 *General Purpose Financial Statements -Not-for-Profit Private Sector Tier 3 Entities*.

### Overview of the standard

The Standard sets out the accounting requirements for NFP private sector entities that elect or are required to prepare Tier 3 GPFS, including new recognition, measurement, presentation and disclosure requirements. It is completely stand-alone and has been designed to be simpler and easier to apply than Tier 1 or Tier 2 requirements, considering preparer costs and information needs of users of GPFS.

The Standard will apply to annual reporting periods beginning on or after 1 July 2029 (early adoption permitted provided that AASB 2026-2 *Extending the Application of the Conceptual Framework and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* is also applied at same time) [refer to separate financial reporting guide for more on this amendment].

### Who does it apply to?

AASB 1061 does not specify which NFP entities are permitted to apply Tier 3 reporting requirements, although it does not apply to public sector entities.

Tier 3 entities are NFP private sector entities that do not have public accountability and are not prohibited from applying this Standard by legislation or their constituting document or another document. At this point no legislation has been issued prohibiting the standard from applying to certain NFPs, and it is uncertain as to extent and timing of any future amendments to the *Corporations Act 2001* (Cth) or the *Australian Charities and Not-for-Profits Commission Act 2012* (Cth).

### Why was it introduced?

AASB 1061 aims to provide a proportionate financial reporting response for smaller NFP private sector entities required to prepare financial statements that comply with Australian Accounting Standards.

The Standard will also provide an easier and simpler transition to GPFS for NFPs that will need to move from preparing special purpose financial statements (SPFS) to GPFS, as a result of applying AASB 2026-2.

### What is the impact?

The impact will be varied, depending on what type of financial statements the NFP entity is currently producing. For those NFP entities currently preparing Tier 2 GPFS, there will likely be simpler recognition and measurement requirements, and a reduction in disclosures. This could save time in preparing financial statements and also reduce complexity for management and other users of financial statements.

For those NFP entities currently preparing SPFS, the impact will depend on whether they currently prepare financial statements that comply with the recognition and measurement requirements of Australian Accounting Standards. If they do, the Tier 3 requirements will likely be simpler and easier to apply. If not, the impact will vary depending on what accounting policies are currently adopted by the NFP entity and what disclosures they apply.



## A summary of key simplifications <sup>1</sup>

Topic	Tier 3 requirement	Tier 2 requirement
General requirements	<ul style="list-style-type: none"> <li>It is a stand-alone standard containing recognition, measurement, presentation and disclosure requirements.</li> <li>Certain uncommon areas to NFPs are not included (eg agriculture, share-based payments, certain financial instruments and non-current assets held for sale) and if the entity has these transactions they must apply the full standard requirements from Tier 2.</li> <li>Presentation and disclosure requirements are relatively consistent with the current Tier 2 requirements although with less disclosures in areas where the recognition and measurement requirements are less.</li> </ul>	<ul style="list-style-type: none"> <li>This tier is part of a suite of accounting standards, rather than one separate standard.</li> <li>All recognition and measurement standards are included in Tier 2.</li> <li>Tier 2 contains less presentation and disclosure requirements and some simplifications from Tier 1.</li> </ul>
Statement of Cash Flows	<ul style="list-style-type: none"> <li>Split cash flows into two categories only - operating and 'other'.</li> </ul>	<ul style="list-style-type: none"> <li>Cash flows to be split into three categories – operating, investing and financing.</li> </ul>
Consolidated Financial Statements	<ul style="list-style-type: none"> <li>Consolidated financial statements required if the entity is a parent unless it elects to present separate financial statements and account for the investment in the subsidiary at either cost (less impairment), fair value or the equity method.</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated financial statements to be prepared if the entity is a parent with limited exemptions (such as the investment entity exemption).</li> </ul>
Changes in accounting policies	<ul style="list-style-type: none"> <li>Unless specifically required, modified retrospective approach required [this means the cumulative impact is recognised at the beginning of the current period] for any changes to accounting policies.</li> </ul>	<ul style="list-style-type: none"> <li>The cumulative impact of any changes to accounting policies are recognised at the beginning of the comparative period unless another method specifically required.</li> </ul>
Financial instruments	<ul style="list-style-type: none"> <li>Certain more complex instruments are excluded from the standard. If the NFP has these complex instruments they must be accounted for in accordance with Tier 2 requirements.</li> <li>Concessional loans are measured at transaction price.</li> <li>Financial assets are subsequently measured at cost (less impairment) unless they are held to generate both income and a capital return [which would require fair value measurement].</li> <li>Fair value measurement for assets held for both income and capital return can be discontinued in certain circumstances.</li> <li>Impairment of financial assets is based on objective evidence and measured at estimated future cashflows.</li> </ul>	<ul style="list-style-type: none"> <li>Covers all financial instrument accounting requirements with no exclusions.</li> <li>Loans are initially measured at fair value.</li> <li>Financial assets are measured based on a business model approach (either at amortised cost, fair value through profit or loss or fair value through other comprehensive income).</li> <li>Fair value measurement cannot be discontinued.</li> <li>Impairment assessment requires an expected credit loss approach.</li> </ul>

<sup>1</sup> The order of each topic in the table below follows the order as it appears in the accounting standard



Topic	Tier 3 requirement	Tier 2 requirement
Inventories	<ul style="list-style-type: none"> <li>There is an election for donations to be measured at cost or current replacement cost.</li> </ul>	<ul style="list-style-type: none"> <li>No election exists; therefore, cost is required.</li> </ul>
Associates/ Joint arrangements	<ul style="list-style-type: none"> <li>Equity method is required if consolidated accounts are produced.</li> <li>Otherwise, in separate financial statements the entity can choose to measure their associates/joint ventures at either cost/fair value/equity method.</li> </ul>	<ul style="list-style-type: none"> <li>Some exemptions from the equity method exist in circumstances where consolidated accounts are not prepared or the investment is held by the type of the entity that measure the investment at fair value through profit or loss.</li> </ul>
Investment property/ PP&E /Intangibles	<ul style="list-style-type: none"> <li>Initially recognised at cost or if donated the entity can elect fair value at the date of donation.</li> <li>Expenditure on internally generated intangibles to be expensed only [includes research and development activities].</li> </ul>	<ul style="list-style-type: none"> <li>Fair value measurement is required where the consideration is significantly less than fair value principally to enable the entity to further its objectives.</li> <li>Expenditure on development activities can be capitalised if certain requirements are met.</li> </ul>
Entity Combinations	<ul style="list-style-type: none"> <li>Carrying amounts to be used for entity combinations, except if no asset/liability recorded [in which case this would be recognised fair value unless it was a non-financial asset that the acquiree had obtained for \$Nil or nominal consideration, and unless the asset is an internally generated intangible asset].</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition accounting requires all assets and liabilities of the acquiree to be accounted for at fair value at acquisition date, unless it is scoped out of the standard.</li> </ul>
Leases	<ul style="list-style-type: none"> <li>Lease payments are expensed to the profit or loss over the lease term on a straight-line basis, unless another systematic basis is appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Leases are capitalised and amortised, with lease liability recognised at commencement.</li> </ul>
Provisions	<ul style="list-style-type: none"> <li>Measured at management's best estimate of the undiscounted amount to be paid.</li> </ul>	<ul style="list-style-type: none"> <li>Measured at management's best estimate, but it is discounted.</li> </ul>
Revenue	<ul style="list-style-type: none"> <li>The cash/asset received/transferred to the entity is to be recorded as deferred revenue if there is a common understanding between the parties that the entity will perform in a particular manner resulting in the related transfer or using up of the asset or other assets.</li> <li>If deferred revenue does not exist, revenue is recognised at the point the asset is controlled.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue is recognised for contracts with customers as related performance obligations are met.</li> <li>For grant funds (that are not a customer contract) revenue recognised on receipt unless it is a transfer to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity.</li> </ul>
Impairment of non-financial assets	<ul style="list-style-type: none"> <li>Impairment is assessed only when: <ul style="list-style-type: none"> <li>the asset is damaged physically or becomes obsolete or is a perishable item that is spoilt; or</li> <li>an entity has changed its strategy or has been affected by a reduction in external demand for its goods or services [and in either case the assets capacity might have been adversely affected as a result].</li> </ul> </li> <li>When recoverable amount is required to be assessed, if measuring using value in use there are no detailed rules around how it is calculated.</li> </ul>	<ul style="list-style-type: none"> <li>Impairment is assessed when there are indicators of impairment. Indicators are extensive and required to be assessed at least annually.</li> <li>When recoverable amount is required to be assessed, if measuring using value in use there are detailed rules specifying how it is calculated.</li> </ul>



Topic	Tier 3 requirement	Tier 2 requirement
Employee benefits	<ul style="list-style-type: none"> <li>Measured at the undiscounted amount of expected payments, using pay rates applicable at reporting date.</li> <li>For long service leave measurement, the entity takes into account the likelihood that employees will become entitled in a future period to use (or be paid out) their benefit.</li> </ul>	<ul style="list-style-type: none"> <li>Discounting is required when the expected settlement exceeds 12 months.</li> <li>A probability weighted approach is required for the measurement of long-term employee benefits such as long-service leave.</li> </ul>
Tax	<ul style="list-style-type: none"> <li>If relevant, expense is recognised for current income tax payable and does not take into account future tax consequences.</li> </ul>	<ul style="list-style-type: none"> <li>Tax accounting is required which takes into account current and future tax consequences.</li> </ul>
Transition to Tier 3 GPFS	<ul style="list-style-type: none"> <li>An entity's date of transition to Tier 3 is the beginning of the current reporting period unless the entity elects to restate its comparative financial statements [where the date of transition will be the beginning of the comparative period].</li> <li>At transition, an entity can elect to either:               <ul style="list-style-type: none"> <li>retrospectively apply Tier 3 as if it always applied (certain exemptions allowed); or</li> <li>record assets/liabilities that are required to be recorded, cease recording items that are not permitted, reclassify items as necessary and apply the Tier 3 standard in measuring all recorded assets and liabilities (certain exceptions required and some exemptions allowed).</li> </ul> </li> </ul>	N/A

## Further information and assistance

Contact Pitcher Partners for further information and assistance on the of the new Tier 3 accounting.



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