



Reporting season update

June 2023





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Your presenters

Overview of the session

- Current full-year and half-year reporting
 - New and amending Australian Accounting Standards
 - Agenda decisions (IFRS Interpretations Committee)
 - Law and regulatory related matters
- Future reporting periods
 - Accounting standards issued but not yet effective
 - Australian domestic matters
 - International matters

Poll question #1

What type of entity are you associated with?

1. ASX listed entity
2. Non-listed public company
3. For-profit private company
4. Not-for-profit entity
5. Other



Current full-year and half-year reporting

New and amending accounting standards

Applicable to all entities

30 June 2023 – full year

New Standards

N/A

Amendments

AASB 2020-3 Annual
Improvements 2018 – 2020 and
Other Amendments

AASB 2021-7a Effective Date
of Amendments to AASB 10
and AASB 128 and Editorial
Corrections [general editorials]

New and amending accounting standards

AASB 2020-3 Annual Improvements 2018-2020 and Other Amendments

Standard	Nature of amendment
AASB 1	Simplifies the application by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.
AASB 3	Updates references to the Conceptual Framework for Financial Reporting.
AASB 9	Clarifies the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
1 AASB 116	Requires an entity to recognise the sales proceeds from selling items produced while preparing PP&E for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset.
2 AASB 137	Specifies the costs that an entity includes when assessing whether a contract will be loss making.
AASB 141	Removes the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

New and amending Accounting standards

Example of proceeds from selling items before PP&E ready for use

Entity X has a 30 June year end. It completed construction of a manufacturing facility and it became available for use in December 2021. During the testing phase, the following samples were produced:

Period of testing	Cash received	Costs	Net proceeds
May 2021 to June 2021	20,000	10,000	10,000
July 2021 to Dec 2021	50,000	30,000	20,000
	70,000	40,000	30,000

Old standard

Entity X deducted net proceeds of \$10,000 from PPE-WIP at 30 June 2021 and deducted a further \$20,000 from PPE-WIP at 31 December 2021.

New standard

At 30 June 2023, Entity X applies the new requirements at the beginning of the earliest period presented, 1 July 2021. Therefore, increase to PPE-WIP and RE of \$10,000.

Comparatives (for FY22) also require restatement – increase to income of \$50,000, increase to expenses of \$30,000 and increase to depreciation expense. And, increase to PPE by \$30,000 in balance sheet less additional depreciation.

New and amending accounting standards

Onerous contracts

The unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. I.e., the contract must be loss making.

Costs of fulfilling the contract

Those costs that are **directly related to the contract**, including:

- ❑ the **incremental costs** of fulfilling that contract (e.g., direct labour and materials); and
- ❑ an **allocation of other costs** that relate directly to fulfilling contracts (e.g., an allocation of the depreciation charge for an item of PP&E used in fulfilling that contract).

Plant and equipment is used by Entity X to fulfil **multiple customer contracts**. When assessing whether any one of those contracts is 'onerous' (at an individual contract level), the 'costs directly related to the contract' include an allocation of the depreciation expense of PP&E.

New and amending accounting standards

Applicable specifically to not-for-profit entities

30 June 2023 – full year

New standards

N/A

Amendments

AASB 2022-3 Illustrative
Examples for NFP Entities
accompanying AASB 15

Up-front fee example

- ☐ Is it within the scope of AASB 15?
- ☐ What are the performance obligations in the contract?
- ☐ How is revenue for the up-front fee recognised?

New and amending accounting standards

Applicable to all entities

30 June 2023 – half year

New Standards

AASB 17 Insurance contracts

Amendments

*AASB 2021-5 Deferred Tax
related to Assets and Liabilities
Arising from a Single
Transaction*

*AASB 2021-2 Disclosure of
Accounting Policies and
Definition of Accounting
Estimates*

*AASB 2022-7 Editorial
Corrections to Australian
Accounting Standards and
Repeal of Superseded and
Redundant Standards*

*AASB 2021-6 Disclosure of
Accounting Policies: Tier 2 and
Other Australian Accounting
Standards*

New and amending accounting standards

AASB 2021-5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to AASB 112 clarify that the **exemption does not apply** and, accordingly, an entity must recognise a DTA and a DTL of equal amount.

What's the issue?

Does this exemption apply to a transaction for which an entity recognises both an asset and a liability (from the single transaction), and that gives rise to equal taxable and deductible temporary differences?

~~Recognise no DTA and no DTL?~~

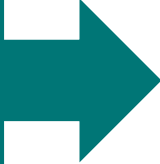
OR

Recognise a DTA and a DTL
of equal amount?

New and amending accounting standards

AASB 2021-2 Disclosure of Accounting Policies and Definition of Accounting Estimates

Disclosure of
significant accounting policies



Disclosure of
material accounting policy
information

Accounting policy information is **material** if,

when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.



*Accounting policy information that relates to **immaterial** transactions, other events or conditions need not be disclosed.*

☐ Is the accounting policy information needed to understand other material information in the financial statements?

New and amending accounting standards

AASB 2021-2 Disclosure of Accounting Policies and Definition of Accounting Estimates

- ☐ Is the accounting policy information needed to understand other material information in the financial statements?

Considerations:

- ✓ Accounting standards provide an accounting policy choice.
- ✓ No accounting standard that specifically applies to the transaction or event.
- ✓ Complex transaction or complex accounting treatment.
- ✓ Area of significant judgement.

Focus on how the entity applied the requirements of accounting standards, rather than simply summarising those requirements.

Agenda decisions

Made by the IFRS Interpretations Committee

Topic	Decision date
Definition of a Lease – Substitution Rights	April 2023

Question:

1. At which level to evaluate whether a contract contains a lease – each asset separately or all assets together – when the contract is for the use of more than one similar asset?
2. How to assess whether a contract contains a lease when the supplier has substitution rights?

The arrangement:

- 10-year contract for the use of **100 batteries (for electric buses)**.
- The lessor has the **practical ability to substitute** alternative batteries throughout the contract term.
- If a battery is substituted, the lessor must compensate the lessee for any revenue lost or costs incurred while the substitution takes place.
- Whether substitution is economically beneficial for the lessor (at any point in time) depends on both the amount of the compensation payable to the lessee and the condition of the battery.
- At inception of the contract, it is expected that the lessor **would not benefit** economically from substituting a battery that has been used for less than 3 years but **could benefit** economically from substituting a battery that has been used for 3 years or more.

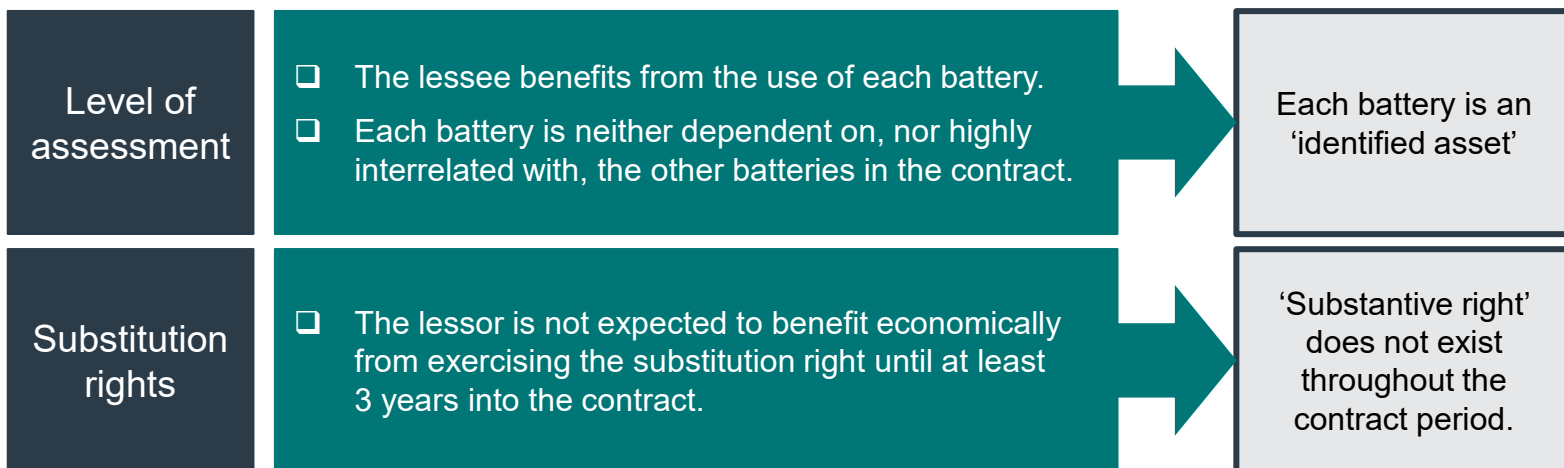
Agenda decisions

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Law and regulatory related matters

- ASIC media releases
- Other ASIC/law related matters
- ACNC update



ASIC Media releases

ASIC Focus areas

Uncertainties and risks

Asset values

Provisions

Solvency and Going Concern

Events occurring after balance date

Disclosures re assumptions and uncertainties in the financial report

Disclosures in the operating and financial review (OFR)

Non-IFRS financial information

[MR 23-149](#) ASIC highlights focus areas for 30 June 2023 reporting

ASIC Focus areas

Uncertainties and risks

Current economic conditions

- High interest rate environment
- Inflationary impact on prices and labour costs
- Weakening growth and recession fears



Potential
impairment
trigger

Related financial reporting areas

- Any areas that incorporate a discount rate in calculations will likely need further consideration
 - Impairment
 - Lease assets and liabilities
 - Expected credit losses
 - Measurement of financial instruments
 - Provisions
 - Borrowing costs
 - Revenue recognition

ASIC Focus areas

Asset values

Non-financial assets

- Triggers analysis
- Assumptions
- Probability weighted scenarios
- Consider Climate-related financial risks
- Generally don't use own market capitalisation or revenue multiple models

Expected credit losses

- Not incurred loss, from Day 1
- Not just history
- Not mechanistic
- Reasonable data and assumptions

Other assets

- Property assets
- Inventories
- Deferred tax assets
- Unlisted investments

ASIC Media Releases

Related matters

Material business
risks
(12)

Impairment and
asset values
(4)

Failure to lodge
financial reports
(16)

Restatement of
revenue
(1)

Non-IFRS profit
(2)

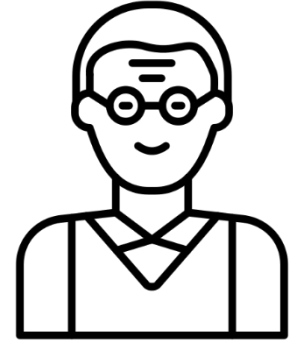
Contingent liability
(1)

Trade
receivables/deferred
revenue
(1)

11 media releases
since 1 January 2023

Other ASIC/law related matters

Grandfathered companies



- Effective for financial years ending on or after 10 August 2022
- Lodgement exemption has been withdrawn
- Impacts approximately 1,100 private businesses
- The requirement for GPFS (including consolidation if relevant) and audit will remain the same.
- Going forward lodgement with ASIC will be required within the normal four month reporting deadline.

See our article on this topic:

<https://www.pitcher.com.au/insights/lodgement-relief-withdrawn-for-grandfathered-large-proprietary-companies/>

Other ASIC/law related matters

Financial reporting changes for AFS Licensees

General purpose financial statements must be prepared at 30 June 2023

Does the entity have 'public accountability' per AASB 1053 or is a licensee type required by FS70 to prepare Tier 1 GPFS?

Yes

No

Tier 1 General purpose financial statements to be prepared and lodged *

Tier 2 General purpose financial statements to be prepared and lodged* unless voluntarily prepare Tier 1

* Some transitional relief from certain comparatives exists in certain circumstances depending on what was prepared in the 2021 financial year and the entity remains a non-reporting entity.

ACNC legislative changes

Financial reporting thresholds

	New thresholds from 30 June 2022 balance dates
Charity size	Annual revenue
Small	Less than \$500,000
Medium	\$500,000 to < \$3m
Large	\$3m or more

ACNC legislative changes

Charities preparing special purpose financial statements

Key management personnel remuneration

- Disclosures per AASB 124 or AASB 1060 (193 – 196)
- Applies to large charities
- Exemption for those whose KMP consist of only one individual
- ACNC Commissioner discretion:
 - No need to show sub-categories required by AASB 124, total is sufficient
 - Comparatives not required for the 2021/22 reporting period

Who

- Responsible persons (eg board, committee members, trustees); and
- Senior staff (eg CEO, CFO, COO)

What

- All forms of consideration paid/payable provided by the charity, or on behalf of the charity in exchange for services (eg wages, accrued and paid leave, non-monetary benefits, termination, superannuation, etc)

ACNC legislative changes

Key management personnel remuneration disclosures

Question 1

- The CEO left the 'large' charity during the 2023 reporting period and was replaced during the 2023 reporting period.
- There were no other remunerated KMPs.
- Is the 'large' charity required to disclose the CEO's remuneration in the FS?

Answer 1

- If they prepare SPFS, as long as there is only one remunerated KMP at any given moment during the reporting period they will be exempt from the disclosure
- If they prepare GPFS they would not be exempt from KMP disclosures regardless of which size charity they were.

ACNC legislative changes

Key management personnel remuneration disclosures

Question 2

- At balance date there was only one KMP remunerated of this 'large' charity, the executive director.
- During the 2023 reporting period the CFO (a KMP also) left and had not been replaced by balance date.
- Given there is one remunerated KMP at balance date, are they exempted from KMP disclosures in the FS?

Answer 2

- If they prepare SPFS, they are not exempt since there was more than one remunerated KMP during the 2023 reporting period (the CFO and the ED).
- If they prepare GPFS there are no exemptions applicable regardless of which size charity they are.

ACNC legislative changes

Charities preparing special purpose financial statements

Related party transactions

- For 2022-23 financial years
- Applies to medium and large charities
- Disclosures per AASB 124 or AASB 1060
- ACNC Commissioner discretion - comparatives not required in first year

Who

- A responsible person and close family members
- A charity's key management personnel and close family
- Other people or organisations that can significantly influence a charity's decision making
- Members of the same group (eg parent and subsidiaries)

What

- Purchases, sales, loans or donations
- Receiving goods, services or property (leases)
- Providing employees or volunteers
- A responsible person of a charity providing professional services

ACNC legislative changes

Examples of related party transactions

Material, so disclose

- Loan to a RP
- Sale of assets to another organisation controlled by KMP or close family member
- Lease agreements with RP
- Salary for close relative of KMP
- Use of charity property by RP
- Fees paid for professional services provided by KMP

May not be material – consider size, nature and circumstances

- A gift of chocolates/wine to board members as a thank you
- Small donations received by the charity from KMP or close family
- Reasonable out of pocket expenses incurred by a RP in their duties for the charity
- Volunteer services provided by a RP that are same as other volunteers

ACNC legislative changes

Charities preparing special purpose financial statements

Basis of preparation

Example disclosure

The special purpose financial report has been prepared in accordance with the *Australian Charities and Not-for-profits Commission Act 2012*, the *ACNC Regulations 2022* and the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of the following Accounting Standards:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Estimates and Errors*
- AASB 1048 *Interpretation of Standards*
- AASB 1054 *Australian Additional Disclosures*
- AASB 124 *Related Party Disclosures* (to the extent required by the *ACNC Regulations 2022* and the ACNC Commissioner's discretion).

Resources on special purpose financial statements (see Appendix D for registered charities):

<https://www.pitcher.com.au/wp-content/uploads/2022/07/SPFS-illustrative-guide-June-2022.pdf>

ACNC legislative changes

Charities preparing special purpose financial statements

(Alternative) Basis of preparation

Example disclosure

The special purpose financial report has been prepared in accordance with the *Australian Charities and Not-for-profits Commission Act 2012*, the *ACNC Regulations 2022* and the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of the following Accounting Standards:

- AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (to the extent required by the *ACNC Regulations 2022* and the ACNC Commissioner's discretion).

Resources on special purpose financial statements (see Appendix D for registered charities):

<https://www.pitcher.com.au/wp-content/uploads/2022/07/SPFS-illustrative-guide-June-2022.pdf>

Poll question #2

Will any of the accounting standard changes or law related changes impact you when preparing your next set of financial statements?

1. Yes significantly
2. Yes but not significant
3. Not at all
4. Unsure



Future reporting periods

Future reporting periods

Accounting standards issued but not yet effective

New/amending standard	Effective date	Application
<u>AASB 2020-1 Classification of Liabilities as Current or Non-current</u>	1 January 2024	All entities
<u>AASB 2022-6 Non-Current Liabilities with Covenants</u>	1 January 2024	All entities
<u>AASB 2022-5 Lease Liability in a Sale and Leaseback</u>	1 January 2024	All entities
<u>AASB 2022-10 Fair Value Measurement of Non-Financial Assets of NFP Public Sector Entities</u>	1 January 2024	NFP Public sector

Future reporting periods

AASB 2020-1 Classification of liabilities as current or non-current

Annual reporting periods beginning on or after 1 January 2024.

Current liabilities

An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting period; or
- (d) **it does not have an unconditional the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.**

An entity shall classify all other liabilities as non-current.

Key Point

Existence of the right at reporting date (to defer settlement for at least 12 months after the reporting date) determines the classification, not the entity's intention or expectation regarding the exercise of such right.

Future reporting periods

AASB 2020-1 Classification of liabilities as current or non-current

Annual reporting periods beginning on or after 1 January 2024.

Compliance with 'loan conditions'. How do they impact classification?

When is the entity required to comply?	What's the impact?
<p><i>Scenario 1</i></p> <p>The entity is required to comply with the 'loan condition' on or before the end of the reporting period'.</p>	<p>The 'loan condition' affects whether the right to defer settlement exists at the end of the reporting period.</p> <p>The entity must comply with the 'loan condition' to classify the loan as non-current at reporting date.</p>
<p><i>Scenario 2</i></p> <p>The entity is required to comply with the 'loan condition' after the reporting period.</p>	<p>The 'loan condition' does not affect whether the right to defer settlement exists at the end of the reporting period.</p> <p>The entity does not consider the future compliance with the 'loan condition' in order to classify the loan as non-current at reporting date.</p>

Future reporting periods

Australian domestic projects



Projects	Expected milestone	Expected timing
NFP Private Sector financial reporting framework	Develop ED	2023/24
Climate-related financial disclosures	Develop ED	H2 2023
Sustainability standard setting framework development	Framework development	June 2023
Auditor engagement related disclosures	Develop ED	TBC

<https://www.aasb.gov.au/media/45ik5dx3/workprogrammay2023.pdf>

Future reporting periods

Sustainability and climate-related financial disclosure developments

International Sustainability Standards Board (ISSB)

- To issue final standards on 27 June 2023
- S2 – Climate-related financial disclosures
- S1 – General sustainability
- Adoption guidance

Treasury

- Legislative changes required
- Further consultation soon
- Application – Larger listed and financial institutions?
- Timing – 30 June 2025? Staggered?
- Where?
- Assurance?

AASB/ASIC

- Separate suite of standards
- ISSB standards to be used as a base with Australian modifications
- Exposure drafts to be issued
- Climate-first approach
- ASIC implementation guidance

Future reporting periods

International matters



Projects	Expected milestone	Expected timing
Amendments to the Classification and Measurement of Financial Instruments	Open ED	Comments by 19/7/2023
Financial instruments with Characteristics of Equity	ED	Q4 2023
Business Combinations – Disclosures, Goodwill and Impairment	ED	H1 2024
IFRS Sustainability and Climate-related Disclosure Standards	Standards	June 2023
International Non-Profit Accounting Guidance	ED2 and ED 3	ED1 released, ED2,3 2023

<https://www.ifrs.org/projects/work-plan/>

<https://www.ifr4npo.org/ed1/>

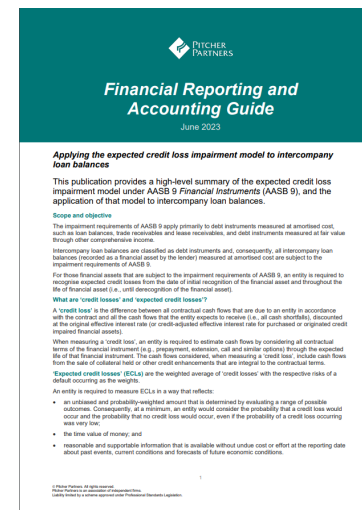
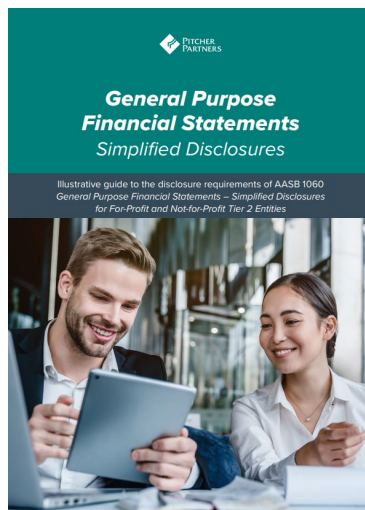
Wrap-up

- ❑ Uncertainties and risks
 - ✓ Asset values
 - ✓ Indicators?
 - ✓ Discount rate impacts
- ❑ Accounting standards application
 - ✓ Not a lot of changes – some specific requirements to consider
 - ✓ Related party implementation for Charities doing SPFS
- ❑ Climate-related financial risk disclosures are coming fast
 - ✓ Big end of town first
 - ✓ Could filter through to other organisations

New and amending Accounting standards

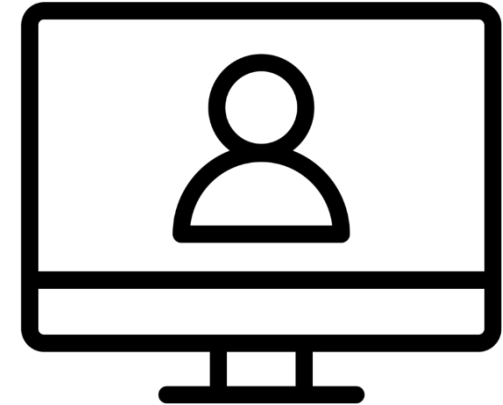
Available resources

- Financial Reporting Guides:
 - Illustrative GPFS: Simplified Disclosures
 - Illustrative SPFS – mostly for not-for-profit entities (e.g., registered charities)
 - Applying the AASB 9 expected credit loss impairment model
- Website: <https://www.pitcher.com.au/advice-for-my-business/audit-and-assurance/accounting-technical/>



Future webinars

Date	Time	Topic
19 October 2023	1pm – 2pm AEDT	Financial instruments – refresher on classification, recognition and derecognition
7 December 2023	1pm – 2pm AEDT	December reporting season update



Articles and technical publication downloads are also available on our website, as well as recordings of previous webinars

<https://www.pitcher.com.au/advice-for-my-business/audit-and-assurance/accounting-technical/>

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