

Financial Reporting and Accounting Guide

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Removal of special purpose financial statements for certain for-profit entities

This publication provides a summary of the key changes to the ability for certain for-profit (FP) entities to apply the 'reporting entity' concept and prepare special purpose financial statements (SPFS) under AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

Principal requirements of the amendments

AASB 2020-2 applies to annual reporting periods beginning on or after 1 July 2021 with early adoption permitted. In fact, early adoption is encouraged as the amendments include transitional relief from restating comparative information only for entities that early adopt the amendments.

The amendments remove the 'reporting entity' concept from Australian Accounting Standards (AAS) for certain FP entities (and therefore the ability to prepare SPFS) through changes to AASB 1057 *Application of Australian Accounting Standards* and the adoption of the new *Conceptual Framework for Financial Reporting*.

Who does this apply to?

Under the amendments, certain types of FP entities will no longer be able to produce SPFS under AAS. The entities this applies to are:

- FP private sector entities that are required by legislation to prepare financial statements that comply with either AAS or accounting standards (including entities preparing financial statements under the *Corporations Act 2001*, such as large proprietary companies (irrespective of whether they are grandfathered or not), unlisted public companies, foreign-controlled small proprietary companies, financial services licensees and small proprietary companies with crowd-sourced funding); and
- Other FP private sector entities (this will include those not included in the scope above such as most trusts, partnerships and joint arrangements) whose constituting document or another document (such as a loan agreement) requires the preparation of financial statements that comply with AAS if the relevant document was created or amended in any way on or after 1 July 2021.

The impact

FP private sector entities in the scope of the new requirements will have to comply with the full recognition and measurement of AAS including those they may not have applied in the past such as equity accounting, consolidation, business combinations, leases, financial instruments, revenue from contracts with customers and fair value measurement.

Entities not in the scope of the new requirements can still prepare SPFS provided there is no other document that requires the preparation of general purpose financial statements (GPFS) and there are no users dependent on GPFS to meet their information needs (based on the 'reporting entity' concept under the *Framework for the Preparation and Presentation of Financial Statements*).

What type of financial statements should the impacted entity prepare?

Instead of preparing SPFS, FP private sector entities in the scope of the new requirements will have to prepare GPFS that comply with either Tier 1 or Tier 2 reporting requirements, as follows:

- Tier 1 reporting is required for entities that have public accountability – these adopt the full suite of AAS.
- Tier 2 reporting is required by other entities that do not have public accountability – these adopt the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures. From 1 July 2021 the existing Tier 2 Reduced Disclosure Regime will be replaced by new Tier 2 disclosure requirements called ‘Simplified Disclosures’ [refer to separate accounting guide for more on this].

Transitional relief

Transitional relief from restating comparative information is available only for those entities that choose to early adopt the new requirements (i.e., for periods beginning **before** 1 July 2021). This means that:

- if you have not complied with all recognition and measurement requirements while preparing SPFS or have not prepared consolidated financial statements where relevant you can present your comparatives as they were disclosed in the previous SPFS (i.e., without restatement); and
- you will not need to disclose comparatives for those note disclosures that were not previously required for SPFS (e.g., related parties, revenue, tax or financial instrument disclosures).

Further, transitional relief will apply to entities for periods before 1 July 2022 to remove the need to distinguish between the correction of errors and changes in accounting policies.

On first-time preparation of GPFS, the following transitional requirements will apply:

- For Tier 1 reporting, the entity must apply AASB 1 *First-time Adoption of Australian Accounting Standards*.
- For Tier 2 reporting where the entity in their previous SPFS did not adopt full recognition and measurement and/or present consolidated financial statements if the entity is a parent entity, the entity shall apply either AASB 1 or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- For Tier 2 reporting where the entity previously adopted full recognition and measurement requirements, including consolidated financial statements where relevant, the entity shall not apply AASB 1.

Further information and assistance

Contact Pitcher Partners for further information and assistance on the removal of SPFS.

Contact us



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