

Financial reporting guide

Primary differences between 'simplified disclosures' and special purpose financial statements

This publication provides a high-level summary of the primary differences between the information required to be disclosed in Tier 2 general purpose financial statements (simplified disclosures) and the information commonly disclosed in special purpose financial statements.

Special purpose financial statements

Special purpose financial statements (SPFS) are prepared for a variety of reasons, including, for example, to satisfy the entity's constitution, compliance with contracts or agreements, or simply to satisfy the internal information needs of the entity.

The extent to which SPFS are required to comply with Australian Accounting Standards is a matter to be determined with reference to the specific requirement for the preparation of the financial statements.

For example, commonly applied Australian Accounting Standards include AASB 101 *Presentation of Financial Statements* (AASB 101), AASB 107 *Statement of Cash Flows* (AASB 107), AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108), AASB 1048 *Interpretation of Standards* (AASB 1048) and AASB 1054 *Australian Additional Disclosures* (AASB 1054).

Removal of the reporting entity concept

For annual reporting periods beginning on or after **1 July 2021**, certain for-profit private sector entities will no longer be permitted to prepare SPFS, when preparing financial statements under Australian Accounting Standards. This change to Australian financial reporting requirements was brought about by the issue of *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

Entities that are no longer permitted to prepare SPFS will instead be required to prepare general purpose financial statements (GPFS) that apply the full recognition and measurement requirements of Australian Accounting Standards, including consolidating controlled entities and equity accounting associates and joint venture entities.

If GPFS are required to be prepared, it is expected that most entities that previously prepared SPFS will be eligible to apply the new 'simplified disclosure' requirements of Australian Accounting Standards (see below) when preparing their GPFS.



Tier 2 general purpose financial statements (simplified disclosures)

For annual reporting periods beginning on or after **1 July 2021**, the presentation and disclosure requirements for Tier 2 general purpose financial statements are contained in AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060).

AASB 1060 is a separate disclosure standard that applies to the preparation of Tier 2 general purpose financial statements, within the differential reporting framework prescribed by AASB 1053 *Application of Tiers of Australian Accounting Standards*.

High-level summary of the primary disclosure differences

The following table outlines the primary disclosure differences between Tier 2 'simplified disclosures' (under AASB 1060) and the information commonly disclosed in SPFS (when applying the disclosure requirements of AASB 101, AASB 107, AASB 108 and AASB 1054).

Notes to the financial statements	GPFS – Simplified Disclosures (AASB 1060)	SPFS (AASB 101, AASB 107, AASB 108 and AASB 1054)
Accounting policies	Required [includes details of the measurement basis (or bases) used, and other accounting policies that are relevant to an understanding of the financial statements]	Required
Accounting standards issued but not yet effective	Not required	Required
Acquisition of businesses	Required [includes, for each business combination, details of the acquisition, consideration transferred, assets and liabilities acquired, goodwill arising on acquisition and a description of the factors that make up goodwill, and the amount of any non-controlling interest]	Required
Assets classified as held for sale	Required [includes details of the assets, and the timing and expected manner of disposal]	Not required ⁽¹⁾
Biological assets	Required [includes the basis of determining fair value, and a reconciliation of the carrying amount]	Not required ⁽¹⁾
Cash flow information	Required [includes components of cash and cash equivalents, and details of non-cash investing and financing transactions]	Required
Contingencies (assets and liabilities)	Required [includes a brief description of the nature of contingent assets and contingent liabilities and, where practicable, an estimate of their financial effect]	Not required ⁽¹⁾
Discontinued operations	Not required ⁽⁴⁾	Not required ⁽¹⁾



Notes to the financial statements	GPFS – Simplified Disclosures (AASB 1060)	SPFS (AASB 101, AASB 107, AASB 108 and AASB 1054)
Disposal of businesses	Not required ⁽⁴⁾	Required
Dividend distributions	Required [includes details of dividends paid or declared during and/or after the reporting date, and the amount of available franking credits]	Required
Financial assets (other than trade and other receivables)	Required [includes categories of financial assets, the basis of determining fair value, details of financial assets transferred but not derecognised, and details of financial assets pledged as collateral]	Not required ⁽¹⁾
Financial liabilities (other than trade and other payables)	Required [includes categories of financial liabilities, terms and conditions, defaults and breaches, and the basis of determining fair value]	Not required ⁽¹⁾
General information about the entity	Required [includes details of the domicile and legal form of the entity, registered office, principal place of business, and a description of entity's operations and principal activities]	Required
Hedging instruments (where hedge accounting is applied)	Required [includes details of hedging instruments and their fair values, details of hedged items, and the nature of the risks being hedged]	Not required ⁽¹⁾
Income tax	Required [includes components of income tax expense, an income tax reconciliation, income tax recognised in other comprehensive income, income tax recognised directly in equity, an analysis of deferred tax assets and liabilities, and details of deferred tax assets not recognised]	Not required ⁽¹⁾
Intangible assets	Required [includes details of individually material items, details of items acquired by way of government grant, contractual commitments, valuations, items pledged as security, items with restricted title, reasons for assessing items as having indefinite useful lives, and a reconciliation of the carrying amount by class of asset]	Not required ⁽¹⁾
Inventories	Required [includes amounts of raw materials, work in progress and finished goods, and details of inventories pledged as security]	Not required ⁽¹⁾
Investments in associates	Required [includes the fair value of investments in associates for which there are published price quotations]	Not required ⁽¹⁾
Investments in joint ventures	Required [includes details of commitments relating to joint ventures, and the fair value of investments in joint ventures for which there are published price quotations]	Not required ⁽¹⁾



Notes to the financial statements	GPFS – Simplified Disclosures (AASB 1060)	SPFS (AASB 101, AASB 107, AASB 108 and AASB 1054)
Investment property	<p style="text-align: center;">Required</p> <p>[includes the basis of determining fair value, and a reconciliation of the carrying amount]</p>	Not required ⁽¹⁾
Key management personnel (KMP) compensation	<p style="text-align: center;">Required</p> <p>[includes the total amount of compensation paid or payable to KMP]</p>	Not required ⁽¹⁾
Lease assets and lease liabilities (lessees only)	<p style="text-align: center;">Required</p> <p>[includes a description of each significant leasing arrangement, a reconciliation of the carrying amount of right-of-use assets by class of underlying asset, and a maturity analysis of future lease payments]</p>	Not required ⁽¹⁾
Leasing activities (lessors only)	<p style="text-align: center;">Required</p> <p>[includes a description of each significant leasing arrangement, and a maturity analysis of future lease payments]</p>	Not required ⁽¹⁾
Other revenue and income	<p style="text-align: center;">Required</p> <p>[includes details of government grants]</p>	Material items only ⁽¹⁾⁽²⁾
Prior period errors	<p style="text-align: center;">Required</p> <p>[includes details of the nature of prior period errors, and the amount of the correction for each affected financial statement line item]</p>	Required
Profit from continuing activities	<p style="text-align: center;">Required</p> <p>[includes interest expense, impairment losses by category of asset, share-based payment expense, defined contribution plan expense, inventory expense, and R&D expense]</p>	Material items only ⁽¹⁾⁽²⁾
Property, plant and equipment	<p style="text-align: center;">Required</p> <p>[includes details of contractual commitments, valuations, items pledged as security, items with restricted title, and a reconciliation of the carrying amount by class of asset]</p>	Not required ⁽¹⁾⁽³⁾
Provisions	<p style="text-align: center;">Required</p> <p>[includes a reconciliation of the carrying amount by class of provision]</p>	Not required ⁽¹⁾⁽³⁾
Related party disclosures (other than KMP compensation)	<p style="text-align: center;">Required</p> <p>[includes, by category of related party, details of transactions and balances with related parties, including amounts and terms and conditions]</p>	Not required ⁽¹⁾
Remuneration of auditors	<p style="text-align: center;">Required</p> <p>[includes fees for the audit or review of the financial statements, and fees for other services]</p>	Required
Reserves	<p style="text-align: center;">Required</p> <p>[includes a description of each reserve]</p>	Required



Notes to the financial statements	GPFS – Simplified Disclosures (AASB 1060)	SPFS (AASB 101, AASB 107, AASB 108 and AASB 1054)
Retained earnings	Not required ⁽⁴⁾	Not required ⁽¹⁾
Revenue from contracts with customers	Required [includes the amount of each category of revenue, disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are effected by economic factors]	Material items only ⁽¹⁾⁽²⁾
Share-based payments	Required [includes a description of each arrangement, weighted average exercise price of share options granted, basis of determining the fair value of equity instruments granted, and details of modifications to arrangements]	Not required ⁽¹⁾
Share capital	Required [includes, for each class of share capital, details of rights, preferences and restrictions, shares reserved for issue under options, contracts for the sale of shares, and a reconciliation of the number of shares outstanding]	Required
Significant accounting estimates and judgements	Required [includes judgements in applying accounting policies, and key assumptions and other sources of estimation uncertainty]	Required
Subsequent events	Required [includes details of the nature of 'non-adjusting' subsequent events and their financial effect]	Not required ⁽¹⁾
Trade and other payables	Required [includes details of general terms and conditions]	Not required ⁽¹⁾⁽³⁾
Trade and other receivables	Required [includes details of general terms and conditions, receivables transferred but not derecognised, and receivables pledged as collateral]	Not required ⁽¹⁾⁽³⁾

Notes:

- (1) AASB 101, AASB 107, AASB 108 and AASB 1054 do not explicitly require information to be disclosed in the notes to the financial statements in relation to this item. However, paragraph 112(c) of AASB 101 requires an entity to disclose information that is not presented elsewhere in the financial statements, but is relevant to an understanding of the financial statements.
- (2) Paragraph 97 of AASB 101 requires an entity to disclose the nature and amount of material items of income or expense.
- (3) AASB 101, AASB 107, AASB 108 and AASB 1054 do not explicitly require information to be disclosed in the notes to the financial statements in relation to this item. However, paragraph 77 of AASB 101 requires an entity to disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.
- (4) AASB 1060 does not explicitly require information to be disclosed in the notes to the financial statements in relation to this item. However, paragraph 91(c) of AASB 1060 requires an entity to disclose information that is not presented elsewhere in the financial statements, but is relevant to an understanding of the financial statements.



Disclosure of comparative information (first-time adoption of 'simplified disclosures')

When applying the requirements of Australian Accounting Standards – Simplified Disclosures for the first time, there are a number of factors that impact the presentation and disclosure of comparative information. These factors include:

- 1) whether the recognition and measurement requirements of Australian Accounting Standards were previously applied;
- 2) if the entity is a parent entity (i.e., the entity has controlled entities), whether consolidated financial statements were previously prepared in accordance with AASB 10 *Consolidated Financial Statements*;
- 3) whether the entity elected to apply Australian Accounting Standards – Simplified Disclosures to annual reporting periods beginning before 1 July 2021 (i.e., prior to the 1 July 2021 mandatory application date); and/or
- 4) whether the entity applies the requirements of AASB 1 *First-time Adoption of Australian Accounting Standards* or the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* on first-time adoption of Australian Accounting Standards – Simplified Disclosures.

Importantly, 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 comparative information on the basis disclosed in the previous SPFS (i.e., without restatement); and
- you will not need to disclose comparative information in the notes to the financial statements if the information was not disclosed in the previous SPFS (e.g., income tax, KMP compensation and related party disclosures).

Further information and assistance

Contact Pitcher Partners for further information and assistance on the removal of the reporting entity concept from Australian Accounting Standards, and the preparation of general purpose financial statements in accordance with Australian Accounting Standards – Simplified Disclosures.



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