

Financial reporting guide

Not-for-profits and the removal of special purpose financial statements

This publication provides a summary of the key changes to the ability for certain not-for-profit (NFP) entities to apply the 'reporting entity' concept and prepare special purpose financial statements (SPFS) under AASB 2026-2 *Extending the Application of the Conceptual Framework and Limiting and Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*.

Overview of the amendments

AASB 2026-2 removes the 'reporting entity' concept from Australian Accounting Standards (AAS) for certain NFP entities (and therefore the ability to prepare SPFS), both in the private sector and the public sector, through changes to several standards and extends the application of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* to these NFP entities.

The amendment applies to annual reporting periods beginning on or after 1 July 2029 (early adoption permitted).

Who does it apply to?

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

- NFP entities that are required by legislation to prepare financial statements that comply with either AAS or accounting standards (including NFP entities preparing financial statements under the *Corporations Act 2001* (Cth), such as companies limited by guarantee, and NFP entities preparing financial statements under the *Australian Charities and Not-for-Profits Commission Act 2012* (Cth), such as registered charities); and
- Other NFP entities (this will include those not included in the scope above) whose constituting document or another document (such as a grant 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 2029.

The impact

NFP entities in the scope of the new requirements will have to prepare general purpose financial statements (GPFS), perhaps for the first time. If the entity is required to adopt Tier 1 or Tier 2 reporting requirements, they will have to comply with the full recognition and measurement requirements of AAS including those they may not have applied in the past such as consolidation, leases, financial instruments, revenue from contracts with customers and fair value measurement. Even if the entity can adopt the simpler Tier 3 reporting requirements there may still be differences in recognition and measurement, although we would expect the impact to be less than those adopting Tier 1 or Tier 2 reporting requirements.

NFP entities not in the scope of the new requirements can still prepare SPFS provided there is no other document that requires the preparation of 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 NFP prepare?

Instead of preparing SPFS, NFP entities in the scope of the new requirements will have to prepare GPFS that comply with either Tier 1, Tier 2 or Tier 3 reporting requirements as follows:

- Tier 1 reporting is required for certain NFP public sector entities (for example, the Australian Government and State, Territory and Local Governments). Tier 1 reporters adopt the full suite of AAS.
- Tier 2 reporting is appropriate for NFP entities that do not apply either Tier 1 or Tier 3 reporting requirements. Tier 2 reporters adopt the recognition, measurement and presentation requirements of Tier 1 with substantially reduced disclosures.
- Tier 3 reporting is appropriate for NFP private sector entities that do not have public accountability (as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*) and are not prohibited from applying the standard by legislation or their constituting document or another document. Tier 3 is a separate stand-alone accounting standard which applies from 1 July 2029 (which can be early adopted) with simpler recognition, measurement, presentation and disclosure requirements.

Transitional relief

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

- For Tier 2 reporting, where the entity's previous SPFS did not adopt the recognition and measurement requirements (including consolidation or equity accounting when relevant) of AAS, the entity has a choice as to whether they apply AASB 1 *First-time Adoption of Australian Accounting Standards* or AASB 108 *Basis of Preparation of Financial Statements*. Where an entity applies AASB 1, relief can be obtained from restating comparative information. Therefore, the comparative information can remain as previously reported in the entity's SPFS. Consequently, any recognition and measurement adjustments as a result of applying AASB 1 will be taken into account at the opening balance sheet date of the current reporting period. However, when the entity's previous SPFS did adopt all applicable recognition and measurement requirements of Australian Accounting Standards (including consolidation and equity accounting when relevant), the entity continues to apply these requirements and will not apply AASB 1.
- For Tier 3 reporting, the entity must apply the transition provisions contained within AASB 1061 *General Purpose Financial Statements -Not-for-Profit Private Sector Tier 3 Entities* [refer to separate financial reporting guide].

Further information and assistance

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



Kylee Byrne
Executive Director

p +61 3 8610 5292
e kylee.byrne@pitcher.com.au



Kerry Hicks
Director, Technical Standards

p +61 2 9228 2272
e kerry.hicks@pitcher.com.au

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