Grant Thornton

An instinct for growth™

Technical Accounting Alert

TA 2019-15

What's new for December 2019?

Introduction

The objective of this Technical Accounting (TA) Alert is to:

- provide information on new and revised Accounting Standards that are mandatorily applicable for the first time to 31 December 2019 annual and/or half-year ends; and
- highlight other recent financial reporting developments

This TA Alert incorporates all the relevant pronouncements and developments as at 11 December 2019. Entities should also take into account any new pronouncements issued, or developments taking place, after this date if they are relevant for the financial year and/or half-years ending 31 December 2019.

For a list of all the pronouncements issued by the AASB and the IASB that are not yet effective, refer to our latest TA Alert on this topic on our website (http://www.grantthornton.com.au/en/insights/technical-publications--ifrs/local-technical-and-financial-reporting-alerts/).

Overview

There are a number of new and revised Australian accounting requirements are mandatory for the first time to annual and/or half-year reporting periods ending 31 December 2019, which are summarised overleaf.

NEW AND REVISED AUSTRALIAN ACCOUNTING REQUIREMENTS

Standard / Interpretation	Mandatory effective date (Annual periods beginning on or after…)	Applicable for the first time to year ending 31 December 2019?	Applicable for the first time to half-year ending 31 December 2019?
AASB 16 *Leases*	1 January 2019	✓	✓
AASB 1058 *Income of Not-for-Profit Entities*	1 January 2019	✓	✓
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*	1 January 2019	✓	✓
AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*	1 January 2019*	✓	✓
AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*	1 January 2019	✓	✓
AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*	1 January 2019	✓	✓
AASB 2017-7 *Amendments to Australian Accounting Standards – Long Term Interest in Associates and Joint Ventures*	1 January 2019	✓	✓
AASB 2018-1 *Annual Improvements 2015-2017 Cycle*	1 January 2019	✓	✓
AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*	1 January 2019	✓	✓
AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors*	1 January 2019	✓	✓
AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*	1 January 2019	✓	✓
AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*	1 January 2019	✓	✓
Interpretation 23 *Uncertainty Over Income Tax Treatments*	1 January 2019	✓	✓

* Only for not-for-profit entities. For for-profit entities, this standard was effective for annual periods beginning on or after 1 January 2018.

First time application to annual reporting periods ending 31 December 2019

Although a number of new and revised standards became effective for the annual/half-year periods ending 31 December 2019, this TA Alert focuses only on standards with relatively significant changes. Other standards are unlikely to have any significant impact of entities.

AASB 16 *Leases* – Applicable to annual reporting periods ending 31 December 2019

AASB 16 represents a significant overhaul of lease accounting requirements, replacing AASB 117 *Leases* and a number of lease-related Interpretations for annual reporting periods beginning on or after 1 January 2019.

The new Standard:

- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117; and
- requires significant new and additional disclosures about leases.

A Snap shot of changes:

It is important to note that the Australian Securities and Investments Commission (ASIC) considers right of use (ROU) assets arising from the application of AASB 16 as 'intangible assets' and thus such assets need to be excluded from the calculation of 'Net Tangible Assets' (NTA) which is a requirement for many Australian Financial Services Licence (AFSL) holders and listed entities. For more information on the effect of AASB 16 on NTA calculation, refer to out TA Alert 2019-16.

AASB 1058 *Income of Not-for-Profit Entities* – Applicable to annual reporting periods ending 31 December 2019

AASB 1058 contains the new income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15 *Revenue from Contracts with Customers*. These standards supersede all the income recognition requirements relating to private sector NFP entities, and the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 *Contributions*.

Under AASB 1058, the timing of income recognition depends on whether a NFP transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.

This standard applies when a NFP entity enters into transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives. In this case, the entity will recognise and measure the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. AASB 116 *Property, Plant and Equipment*).

Upon initial recognition of the asset, AASB 1058 requires the entity to consider whether any other financial statement elements (called 'related amounts') should be recognised (such as contributions by owners revenue, a contract liability arising from a contract with a customer, a lease liability, a financial instrument or a provision). These related amounts will be accounted for in accordance with the applicable Australian Accounting Standard.

Cost option for initial measurement of right of use assets for significantly below market leases

In December 2018, the AASB issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* which introduces a relief allowing NFP entities to not measure below-market leases (including peppercorn leases) at fair value for initial measurement purposes when transitioning to AASB 1058 and AASB 16. Under the changes, NFP entities are allowed to measure below-market leases initially either at cost or fair value.

Interpretation 23 *Uncertainty over Income Tax Treatments*

For income years beginning on or after 1 January 2019, entities will need to record their uncertain tax positions in their financial statements. This new Interpretation is a major conceptual extension to AASB 112 *Income Taxes* and requires the preparers of financial statements to consider the potential ramifications of tax accounting decisions, and potentially record additional income tax expense. As it is directly related to AASB 112, its impact is limited to "income taxes" as defined in that standard – for most entities this is limited to income taxes, withholding taxes and transfer pricing adjustments.

Specifically, Interpretation 23 requires entities to consider if they have applied any income tax treatments where there is potential uncertainty or where there is potential contention of that treatment by the tax authority (being the Australian Taxation Office (ATO) and, ultimately, the courts). If an entity concludes that it is probable (i.e. more than 50% likely) that said authorities would not accept that treatment, then it must quantify the potential exposure and record it in its calculation of current and deferred tax balances.

In making its assessment of the tax authority's view, the entity must assume that the tax authority will be privy to all related information applicable to all treatments. The practical implication of this is that where tax balances are adjusted as a result of Interpretation 23, the ATO could use this as an indicator to initiate their own tax audit procedures against the entity.

It is likely that the application of Interpretation 23 will require an extension of entities' internal tax risk and governance framework to address the additional accounting requirements, especially where Management and those charged with governance possess the appropriate documentation and the relevant tax expertise or skills to make reasonable judgements. This would also involve reviewing their documented consideration of any tax issues flagged by their external tax advisers during the year. For other less sophisticated entities, it may be more appropriate to coordinate with tax advisors to develop and maintain reporting frameworks to assist entities in their reporting obligations.

Both of these approaches presumes an entity has a strong tax governance framework already in place whether performed internally or externally. Where this is lacking, entities will struggle with applying Interpretation to a satisfactory level.

This requirement applies to all companies who prepare financial statements applying the Australian accounting standards.

Other financial reporting developments that are relevant to annual periods ending 31 December 2019

ASIC focus areas for 31 December 2019

On 6 December 2019, ASIC announced the following financial reporting focus areas for 31 December 2019 financial reports:

- Impact of the new lease and other accounting standards
- Impairment testing and asset values
- Revenue recognition
- Expense deferral
- Off-balance sheet arrangements
- Tax accounting
- Estimates and accounting policy judgements

Among other things, the ASIC media release makes it clear that ASIC considers right of use (ROU) assets arising from the application of AASB 16 as 'intangible assets' and thus such assets need to be excluded from the calculation of NTA which is a requirement for many Australian Financial Services Licence (AFSL) holders and listed entities. ASIC requires directors and auditors of affected entities to report any breaches to ASIC as required by *Corporations Act 2001*. As the financial condition requirements applicable to AFSL holders are on an 'at all time' basis, compliance needs to be considered from the commencement of the financial year to which the standard first applied (even if ASIC were to subsequently change a licensee's conditions to allow ROU to be counted in NTA calculations).

For more information on ASIC focus areas, refer to our TA Alert 2019-14 *ASIC focus areas for 31 December 2019 financial reports*.

Other financial reporting developments that are relevant to future periods

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

In August 2019, the AASB published Exposure Draft ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities,* proposing to remove the ability to prepare special purpose financial statements (SPFS) for certain for-profit entities when those entities are required by:

- legislation to prepare financial statements that comply with either Australian Accounting Standards (AAS) or accounting standards; or
- their constituting document (or another document) prepare financial statements that comply with AAS, provided the relevant document was created or amended on or after 1 July 2020

In addition to those entities that publicly lodge their financial statements, the proposals could impact the following entities, among others:

- 'grandfathered' large proprietary companies (as they are required by legislation to prepare a financial report and they are only exempted from the lodgement with ASIC);
- small proprietary companies controlled by a foreign company and not subject to ASIC class order relief;
- co-operative and mutuals and others who are required by legislation to prepare financial statements that comply with either AAS or accounting standards;
- trusts, partnerships and joint arrangements whose constituting document or another document requires the preparation of financial statements that comply with AAS if the relevant document was created or amended on or after 1 July 2020; and
- others (both private and public sector) that elect to prepare general purpose financial statements (GPFS) and elect to apply the Conceptual Framework.

The proposals were due for public comment by 30 November 2019 and had a proposed effective date of annual periods beginning on or after 1 July 2020.

The AASB is expected to release the final requirements during first-half of 2020, following its redeliberation and consideration of constituent's feedback.

New Tier 2 disclosure framework

In August 2019, the AASB released Exposure Draft ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* which proposed:

- A new Tier 2 disclosure framework for all eligible Tier 2 entities (including NFP private sector and public sector);
- A new set of principles and methodology for determining Tier 2 disclosures based on the IFRS for SMEs Standard;
- A separate disclosure standard (referred to as 'Simplified Disclosure Standard') which will contain all Tier 2 disclosures

Compared to the existing Reduced Disclosure Requirements (RDR) framework, the proposals provide significant disclosure relief for Tier 2 entities in areas such as leases (AASB 16), revenue from contracts with customers (AASB 15), interests in subsidiaries, associates and joint ventures (AASB 128) and business combinations (AASB 3). However, the proposals also increase Tier 2 disclosures in certain areas (e.g. hedge accounting (AASB 7), defined benefit plans (AASB 119) and leases maturity analysis (AASB 16)).

It is important to note that the ED proposals did not change

- which entities are permitted to apply Tier 2 requirements; and
- the recognition and measurement requirements for Tier 2 (which are the same as for Tier 1).

The proposals were open for public comment by 30 November 2019 and had a proposed effective date of annual periods beginning on or after 1 July 2020.

It is expected that the AASB will release the final requirements during first-half of 2020, following its redeliberation and consideration of constituent's feedback.

Disclosure of compliance with recognition and measurement requirements (NFP entities only)

In July 2019, the AASB published ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*.

The ED proposed a requirement for those entities lodging SPFS with either ASIC or the Australian Charities and Not-for-profits Commission (ACNC) to disclose:

- the basis on which the decision to prepare SPFS was made;
- whether consolidation (AASB 10) and equity accounting (AASB 128) requirements have been complied with (where applicable); and
- the extent of compliance with all recognition and measurement requirements in Australian Accounting Standards, and where there is non-compliance an indication of where they do not comply.

Following its redeliberation and consideration of stakeholders' feedback, at its September 2019 board meeting, the AASB decided that only NFP entities are required to comply with the proposals in ED 293.

In November 2019, the AASB issued the final amendments as AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* which is effective for NFP entities for annual periods ending or after 30 June 2020.

Increase in threshold for large proprietary companies

The Commonwealth Parliament has passed *Corporations Amendment (Proprietary Company Thresholds) Regulation 2019* on 4 April 2019 doubling the large proprietary company thresholds, effective from 1 July 2019.

Consolidated revenue for the financial year and the entities it controls: $25 million	Consolidated revenue for the financial year and the entities it controls: $50 million
Consolidated gross assets $12.5 million	Consolidated gross assets $25 million
The Company and the entities it controls haveing 50 employees at the end of the financial year	The Company and the entities it controls haveing 100 employees at the end of the financial year

Consistent with the existing requirements, a proprietary company will be defined as large for a financial year if it satisfies at least two of the above thresholds.

Corporate Governance

Following extensive stakeholder consultation, on 27 February 2019 the ASX Corporate Governance Council released its 4th edition of ASX Corporate Governance Principles and Recommendations which will be effective for annual periods beginning on or after 1 January 2020.

This latest edition seeks to address issues around culture, values and trust, against a backdrop of community scepticism towards business and a 2018 marked by corporate scandals and governance failings as highlighted at the Financial Services Royal Commission.

For more information on the 4th edition of ASX Corporate Governance Principles, refer to the ASX website.

Further information

If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your Grant Thornton Relationship Partner or a member of the National Assurance Quality Team at national.assurance.quality@au.gt.com.