ACCOUNTING STANDARDS UPDATE: GETTING READY FOR 30 JUNE 2019

22 May 2019

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INTRODUCTION

OUTLINE OF THIS SESSION

- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*
- Australian Specific Developments
- Standards and Interpretations Effective for the First Time:
  - 30 June 2019 Year-ends
- Standards and Interpretations Effective for the First Time:
  - 30 June 2019 Half-years (i.e. 31 December 2019 Year-ends)
- Issued But Not Effective
- IFRS Interpretations Committee (IFRIC) Agenda Decisions
- Not-for-Profit Developments

AASB INTERPRETATION 23 *UNCERTAINTY OVER INCOME TAX TREATMENTS*

MIKE SMITH, TRANSFER PRICING PARTNER

&

JASON DE BOER, TAX PARTNER

IFRIC 23 / AASB INTERPRETATION 23

- FIN 48 introduced in 2006 in the US
- Similar proposal introduced for IFRS in 2009 Exposure Draft but discontinued in 2010 following negative feedback
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments / AASB Interpretation 23 applies for reporting periods beginning on or after 1 January 2019
- Requires entities to calculate the current tax liability in their financial statements as if the tax authorities were going to perform a tax audit, i.e. based on the technical merits of the position
- This interpretation will likely result in higher current tax liabilities being recognised at an earlier date for uncertain tax positions
- Currently there is divergent practice, with many entities taking an optimistic view and factoring in the probability having a tax audit, as well as the outcome, rather than evaluating the uncertain tax position based on its merits

IFRIC 23 / AASB INTERPRETATION 23

Key assumption

"…The entity shall assume that a taxation authority with the right to examine amounts reported to it will examine those amounts and have full knowledge of all relevant information when making those examinations" [para 13]

Analysis required

- If an entity concludes that it is <u>probable</u> the tax authorities will accept a tax position, no additional action is required - tax balances will be calculated under the existing Standard

- If an entity concludes that it is <u>not probable</u> the tax authorities will accept a tax position – it is required to use the "most likely amount" or "expected value" in determining its tax balances. Any variation between the "most likely amount/expected value" and the amount recorded in the accounts will need to be adjusted

IFRIC 23 / AASB INTERPRETATION 23

How to establish "expected value" and "most likely amount"?

- Most likely amount – "the single most likely amount in a range of possible outcomes" – likely to provide best answer where outcomes are binary or concentrated (i.e. deductible / not deductible) [para 16]

- Expected value – "the sum of the probability-weighted amounts in a range of possible amounts" – likely to provide best answer where the outcomes are dispersed (i.e. transfer pricing) [para 16]

How to measure positions (single vs. collective)?

"An entity would consider uncertain tax treatments together as a group when doing so better reflects the manner in which the entity prepares and supports tax treatments or when collective assessment is consistent with the approach the entity expects the taxation authority to take during an examination (or both)"

IFRIC 23 / AASB INTERPRETATION 23

Practical implications

- Develop a register of uncertain tax positions
- Evaluate the technical merits of each position identified
- Document whether the outcome is probable or not probable
- If not probable, calculate and book most likely amount or expected value

Other issues

- Interaction with audit teams – what do they need to ‘tick and bash’
  - Sufficient appropriate audit evidence
  - Documented judgements, thinking and processes
- Consider independence implications – threat of self-review
- Alignment with Reportable Tax Position Schedule (“RTPS”)

CASE STUDY 1

Accounting for tax uncertainties - case study

- You are the CFO of Yorkshire Pudding Limited (“YPL”)
- YPL made an interest free loan to a related party in the UK of A$50m during the year ended 31 December 2019
- You have assessed the loan under Taxation Ruling 92/11 and formed a view that on balance it is more likely to be considered debt than equity
- The ATO has not been in touch with you for a number of years however they have highlighted online that they currently have advice under development with respect to interest free loans
- As part of the statutory audit, your auditors ask whether you have considered the implication of AASB Interpretation 23

CASE STUDY 2

Accounting for tax uncertainties - case study

- You are the CFO of Fish and Chips Limited (“FCL”)
- FCL is an inbound distributor who purchases fish products from related parties for resale in Australia during the year ended 31 December 2019
- Unfortunately, the price of fish from related parties has materially increased in recent years, and FCL has made several years of consecutive losses, falling below the benchmark range in its TP documentation.
- Recently you received a letter from the ATO that suggests you revisit your transfer pricing position in light of PCG 2019/1
- As part of the statutory audit, your auditors ask whether you have considered the implication of AASB Interpretation 23

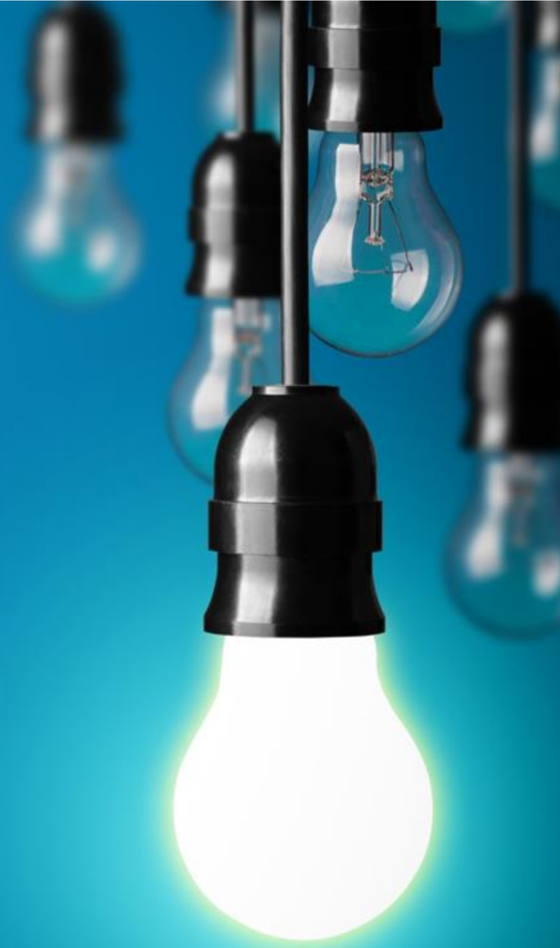
CASE STUDY 3

Accounting for tax uncertainties - case study

- You are the CFO of Aussie Biltong Limited ("ABL"). ABL manufactures kangaroo based biltong products in Australia.
- The product is considered a delicacy in Asia. Therefore, a marketing 'hub' has been set up in Singapore to sell ABL products to Asian markets. The marketing hub is remunerated on a commission basis.
- Due to some inspired viral marketing, the product has recently increased in popularity and the 'gap' between the costs incurred and revenue earned in the marketing hub has significantly widened
- The ATO is currently conducting a review of the transfer pricing arrangements in place with the marketing hub, however no position paper has been issued
- As part of the statutory audit, your auditors ask whether you have considered the implication of AASB Interpretation 23

AUSTRALIAN SPECIFIC CHANGES

TREASURY AMENDMENTS



TREASURY AMENDMENTS

Doubling of reporting thresholds for large private companies reporting to ASIC

Revised thresholds for years beginning on or after 1 July 2019

	Current thresholds for 'large' proprietary companies (if meet 2 or more of criteria below)	New thresholds for 'large' proprietary companies (if meet 2 or more of criteria below)
Consolidated revenue	$25 million or more in consolidated revenue	$50 million or more in consolidated revenue
Gross assets	$12.5 million or more in consolidated gross assets	$25 million or more in consolidated gross assets
Employees	50 or more employees *	100 or more employees *

* Part-time employees as an appropriate fraction of a full-time equivalent

TREASURY AMENDMENTS

Doubling of reporting thresholds for large private companies reporting to ASIC

Implications for companies that become small

No longer need to:	Must:
Prepare financial statements	Keep written financial records S286 of the Corporations Act 2001
Have an audit	Prepare or audit financial reports if directed by ASIC or shareholders with at least 5% of the votes
Lodge financial statements with ASIC within four months of year-end	

TREASURY AMENDMENTS

Doubling of reporting thresholds for large private companies reporting to ASIC

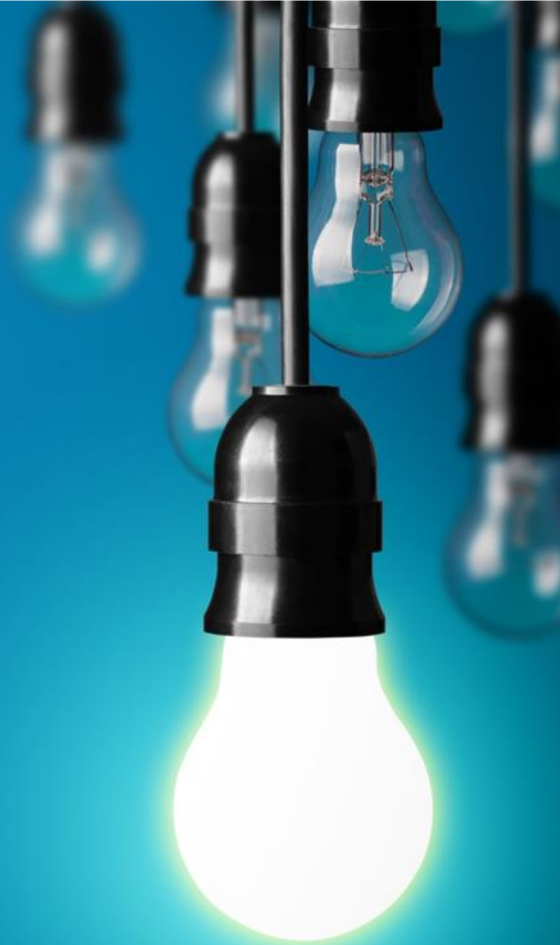
Grandfathered 'large' proprietary companies

No changes have been made to the requirements for 'grandfathered' large proprietary companies

If a grandfathered entity now 'small'

- Consider continuing to have an audit and prepared financial statements in order to maintain the 'grandfathered' status if the entity becomes large again in the future

REDUCTION IN TAX RATES FOR SMALL BUSINESSES



REDUCTION IN TAX RATES

- *The Treasury Laws Amendment (Enterprise Tax Plan) Act 2017* (Act) reduces the company tax rate to 27.5% for smaller companies carrying on a business where aggregate turnover* does not exceed:
  - $25 million for the income tax year ending 30 June 2018
  - **$50 million for the income tax year ending 30 June 2019**

* Aggregate turnover includes turnover of connected entities (including parent companies, subsidiary companies and sister subsidiary companies)

REDUCTION IN TAX RATES

What changes will be required for businesses that previously had a 30% tax rate and now have a 27.5% tax rate?

- Adjust calculations of
  - Current tax
  - Deferred tax

AASB PROPOSAL - SPECIAL PURPOSE FINANCIAL STATEMENTS

To require entities that lodge with ASIC and ACNC to disclose compliance with recognition and measurement requirements of Australian Accounting Standards

AASB PROPOSAL

Applicable to entities currently preparing special purpose financial statements

What minimum standards do entities that lodge special purpose financial statements with ASIC and the ACNC currently comply with?

- Must comply with the recognition, measurement and disclosure requirements of the following standards:
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Statement of Cash Flows*
  - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - AASB 1054 *Australian Additional Disclosures*
- ASIC Regulatory Guide 85 requires entities to comply with all recognition and measurement requirements of ALL accounting standards

AASB PROPOSAL

Applicable to entities currently preparing special purpose financial statements

What is being proposed?

Both for-profit and not-for-profit (NFP) entities that prepare **special purpose financial statements** and fall within the scope of AASB 1054 *Australian Additional Disclosures* (e.g. entities lodging with ASIC or the ACNC) will need to disclose:

- Whether they have **subsidiaries**, and if so, whether they have prepared consolidated financial statements (and if not consolidated, why not)
- If they have investments in associates and joint ventures, whether they have accounted for these under AASB 128 *Investments in Associates and Joint Ventures* (i.e. in most cases by equity accounting)
- Whether the entity has or has not complied with all the R&M requirements of Australian Accounting Standards
- If the entity did not comply with all the R&M requirements, enough information so that users can clearly understand the accounting policies

DOES NOT MEAN ALL ENTITIES MUST COMPLY WITH ALL R&M REQUIREMENTS OF ALL ACCOUNTING STANDARDS

AASB PROPOSAL

Applicable to entities currently preparing special purpose financial statements

When are these proposals likely to be effective?

- Exposure Draft expected to be issued by the AASB in June 2019 with a comment period of 45 days
- Intention of issuing a final standard before December 2019
- However, the AASB notes that given clear stakeholder expectations of trust and transparency from directors, **early voluntary disclosure for 30 June 2019 financial statements is encouraged**.

CORPORATE GOVERNANCE PRINCIPLES

Fourth edition issued – listed entities

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CORPORATE GOVERNANCE PRINCIPLES

Release of fourth edition of Corporate Governance Principles - February 2019

EFFECTIVE FOR FULL FINANCIAL YEARS BEGINNING ON OR AFTER 1 JANUARY 2020

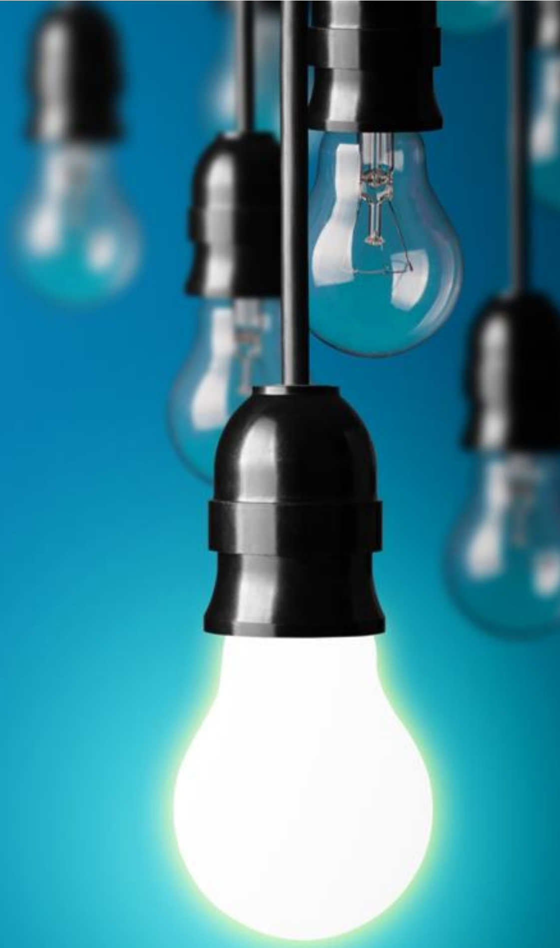
In the fourth edition:

- There are still eight principles
- Nine additional recommendations were added on how to apply the principles (now 35 recommendations)
- Some of the more contentious changes were not made to the final edition
  - Concept of social licence to operate
  - Requirement put forward to avoid aggressive tax minimisation schemes

What do listed entities need to do?

- Review the new recommendations to assess if process changes are needed to corporate governance systems
- Assess if corporate governance statement needs to be update

CROWD FUNDING



CROWD FUNDING

Small proprietary companies can now access crowd-sourced funding

Private companies with:

Less than $25 million in consolidated gross assets

AND

Less than $25 million in consolidated annual revenue (including from related parties)

Can now use crowd-sourced funding to raise up to $5 million per year

Small proprietary companies can now access crowed-sourced funding <u>without</u> converting to a public company

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CROWD FUNDING

Implications for small proprietary companies

Financial statements must be prepared in accordance with Australian Accounting Standards

More than $3 million funds raised

(cumulative amount, not annual limit)

No

- Prepare a financial report (s292(2)(c))
- Prepare a directors' report (s298(1AC)), and
- Lodge the financial report and directors' report with the Australian Securities and Investments Commission (s319(2)(a))

Audit not required

Yes

- Prepare a financial report (s292(2)(c))
- Prepare a directors' report (s298(1AC)), and
- Lodge the financial report and directors' report with the Australian Securities and Investments Commission (s319(2)(a))

Audit required

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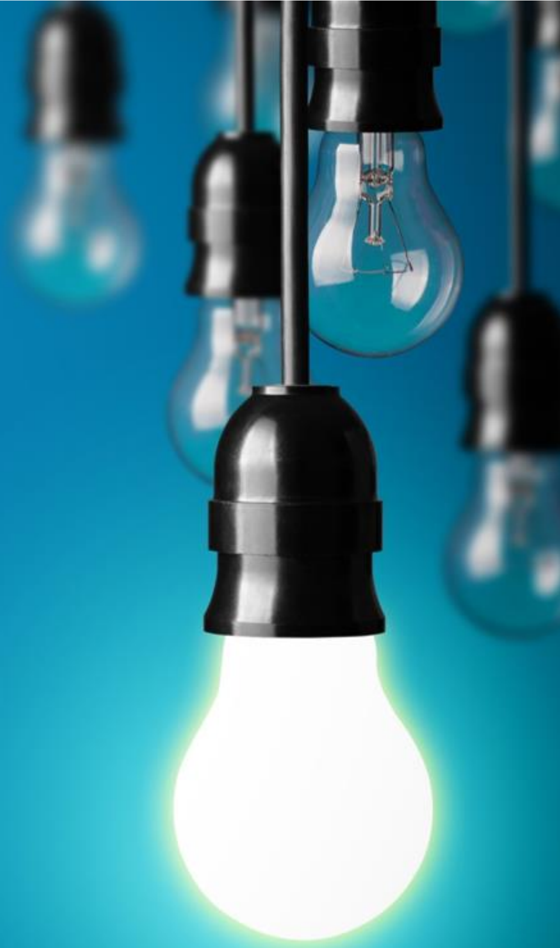
ASIC FOCUS AREAS



ASIC FOCUS AREAS

- ASIC has not yet released its focus areas for 30 June 2019

- Focus areas expected to be similar to December 2018 focus areas:
  - Impact of new standards
  - Application of new standards - are accounting policies appropriate?
  - Extent of disclosures – are they sufficient? (both ongoing and transition disclosures)

ASIC FOCUS AREAS

- Other focus areas expected to be similar to prior years:
  - The operating and financial review (OFR)
  - Non-IFRS financial information
  - Impact of the new standards
  - Impairment testing and asset values (many media releases 'naming and shaming' still relate to impairment write-downs)
  - Revenue recognition policies
  - Expense deferral
  - Off-balance sheet arrangements
  - Tax accounting
  - Disclosure of key estimates and accounting policy judgements.

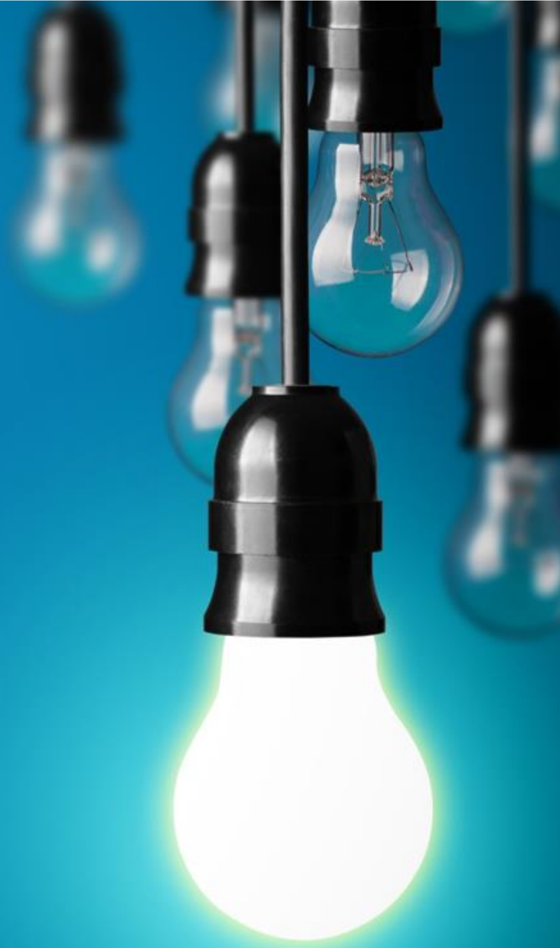
STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE FIRST TIME:
- 30 JUNE 2019 YEAR-ENDS

EFFECTIVE FOR FIRST TIME – 30 JUNE 2019

New Standards	IFRS 9 *Financial Instruments*	IFRS 15 *Revenue from Contracts with Customers*	
Amendments to standards	Amendment to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*	Annual Improvements 2014-2016 Cycle and Other Amendments	Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
New Interpretations	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*		

IFRS 9

Financial Instruments



IFRS 9

Things you should be aware of…..

Measurement of financial assets	Impairment	Hedge accounting	Transition	Interaction with IFRS 15
Far more fair value	*Expected credit loss model - should lead to larger bad debt provisions*	*Easier to achieve hedge accounting*	*Its complicated!*	*Its complicated!*

IFRS 9
Further information

Publications

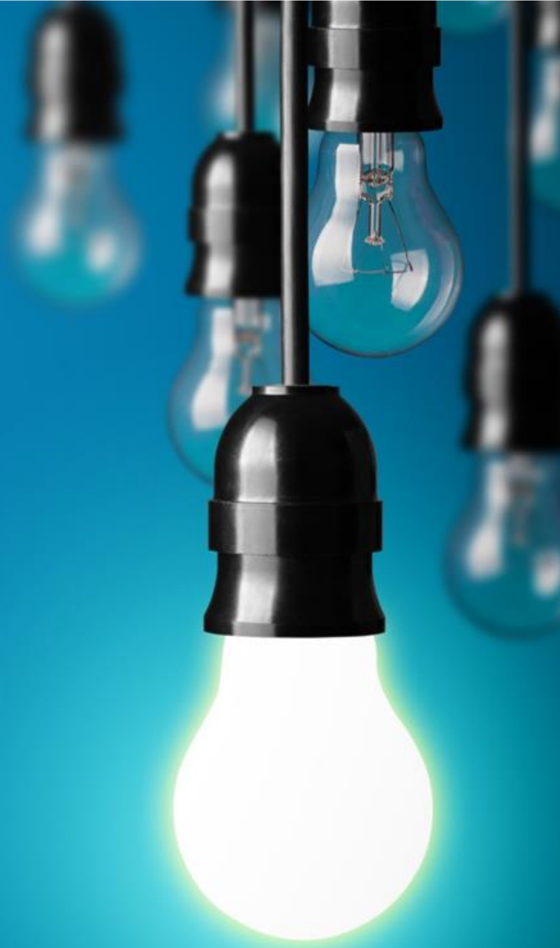
- IFRS In Practice 2018: IFRS 9 *Financial Instruments*
- IFRS in Practice 2019: Applying IFRS 9 to Related Company Loans
- IFRS in Practice 2019: Applying IFRS 9 to Related Company Loans in the Real Estate Sector

Online training courses

- IFRS 9: Corporates – Classification & measurement
- IFRS 9: Corporates – Impairment
- IFRS 7: Changes in disclosure of financial instruments (Corporates)

IFRS 15

Revenue from Contracts with Customers



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IFRS 15

Do you remember the 5 steps?

STEP ONE	STEP TWO	STEP THREE	STEP FOUR	STEP FIVE
Identify the contract	Identify separate performance obligations	Determine transaction price	Allocate transaction price to performance obligations	Recognise revenue when each performance obligation satisfied

IFRS 15

Further information

Publications

- IFRS in Practice: IFRS 15 *Revenue from Contracts with Customers*
- IFRS in Practice: IFRS 15 *Revenue from Contracts with Customers: Transition*

IFRS 15

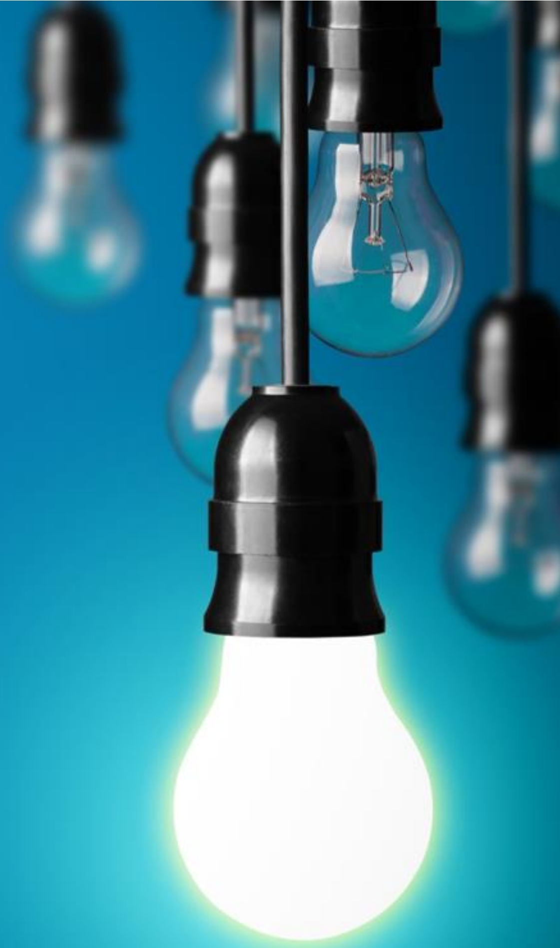
Further information

Online training courses

- IFRS 15 – Overview
- IFRS 15 Step 1 – Identify the contract
- IFRS 15 Step 2 – Identify separate performance obligations in the contract
- IFRS 15 Step 3 – Determine the transaction price
- IFRS 15 Step 4 - Allocate the transaction price
- IFRS 15 Step 5: Recognise revenue
- IFRS 15: Principal vs Agent
- IFRS 15: Licencing
- IFRS 15: Contract costs
- IFRS 15: Treatment of onerous contracts
- IFRS 15: Transition
- IFRS 15: Disclosure

AMENDMENT TO IFRS 2

Classification and Measurement of Share-based Payment Transactions



AMENDMENT TO IFRS 2

Impact of vesting and non-vesting conditions when measuring cash-settled share-based payment transactions

Calculating fair value of a cash-settled share-based payment liability

Account for vesting conditions (market and non-market) and non-vesting conditions in the same way as you would if these were equity-settled share-based payment transactions.

Condition	Example	How accounted for in cash settled liability?
Vesting: non-market	Target sales/profit	No impact on fair value. Adjust number of awards expected to vest
Vesting: market	Target share price	Adjust fair value at each reporting date until settlement
Non-vesting	Future commodity price	Adjust fair value at each reporting date until settlement

Cumulative cash-settled share-based payment expense recognised = cash paid

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AMENDMENT TO IFRS 2

Changing classification from cash-settled to equity-settled

- Guidance added to IFRS 2 clarifying accounting when arrangement changes from being cash settled to equity settled:

1. Measure the equity-settled transaction at the fair value of the equity instruments granted
2. Derecognise the cash-settled liability, and
3. Then recognise the difference between 1. and 2. immediately in profit or loss.

Unlikely to have widespread impact in practice

AMENDMENT TO IFRS 2

Net settlement feature for withholding tax obligations

If entity had to withhold portion of equity instruments from equity settled share-based payment arrangement

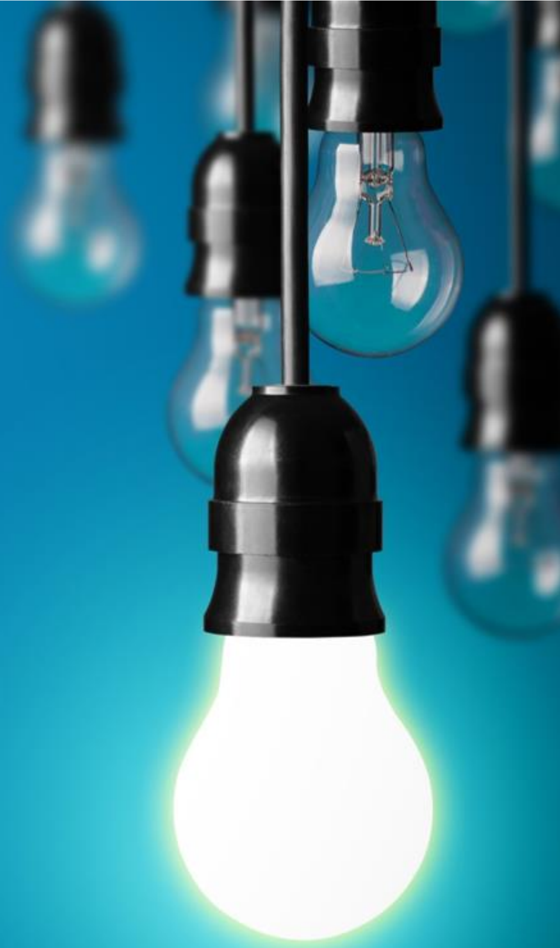
How to classify arrangement?

As equity-settled share-based payment transaction

This exception only applies where the entity is required to withhold a portion of equity instruments. It does not apply if there is a choice (see IFRS 2.33H)

ANNUAL IMPROVEMENTS 2014-2016 CYCLE AND OTHER AMENDMENTS

- *Amendment to IAS 28*
- *Amendment to IAS 40*



AMENDMENTS TO IAS 28

Venture capital organisations, mutual funds, unit trusts, other similar entities

May elect to measure investments in associates and joint ventures at fair value OR use the equity method

[AASB 128, paragraph 18]

Clarifies election available on investment by investment basis

Entity that is not an investment entity

May retain fair value measurement applied by its associates and joint ventures (that are investment entities)

[AASB 128, paragraph 36A]

Clarifies election available on investment by investment basis

AMENDMENT TO IAS 40

Old guidance in IAS 40 for transfers in and out of investment property

Type of transfer			Evidence required
Investment property (PPE)	TO	owner occupied property	Owner occupation started
Investment property	TO	inventories	Development started, with a view to sale
PPE (owner occupied)	TO	investment property	End of owner occupation
Inventories	TO	investment property	Commencement of operating lease to another party

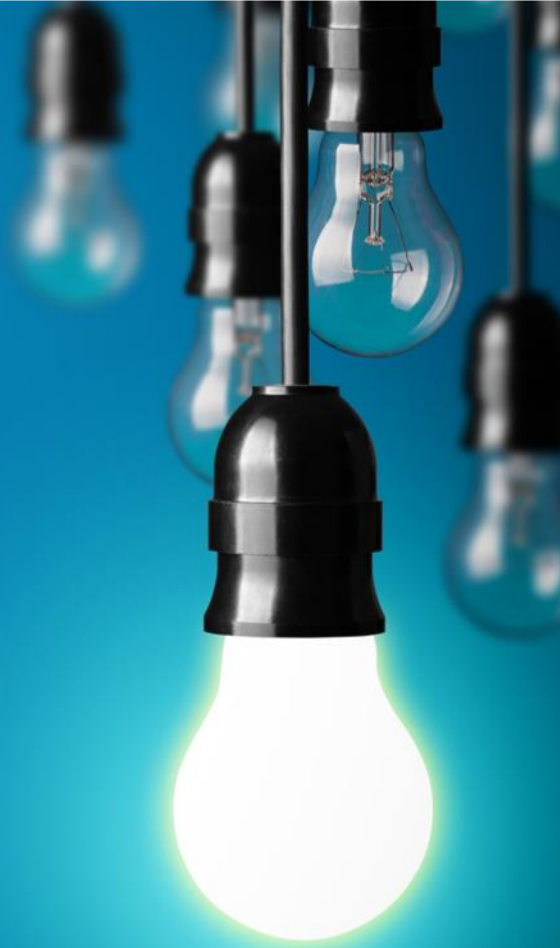
AMENDMENT TO IAS 40

New guidance in IAS 40 for transfers in and out of investment property

Type of transfer			Evidence required
Investment property	➡	owner occupied property (PPE)	Development with a view to owner occupation. For example, a transfer might occur when the lease is terminated and there are firm plans in place for redevelopment that suits the client's specific needs.
Inventories	➡	investment property	Inception of operating lease to another party

IFRIC 22

Foreign Currency Transactions and Advance Consideration



IFRIC 22

Example

Background

- On 1 January 2017, Entity A enters into contract to purchase a machine for USD100,000
- Payment must be made in full on 1 April 2017
- Machine delivered 30 September 2017
- Exchange rates as follows:
  - 1 April 2017 AUD1 : USD0.75
  - 30 June 2017 AUD1: US0.72
  - 30 September 2017 AUD1 : USD0.70
- Entity A has a AUD functional currency
- Year-end is 30 June 2017

Question

What are the journal entries to record the purchase of the machine under the requirements of IFRIC 22?

IFRIC 22
Example

Answer

1 April 2017 – record prepayment for machine

DR	Prepayment	AUD133,333	
CR	Cash		AUD133,333
(USD100,000/0.75)			

30 September 2017 – record delivery of machine

DR	Machine (PPE)	AUD133,333	
CR	Prepayment		AUD133,333

STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE FIRST TIME:
- 31 DECEMBER 2019 YEAR-ENDS (30 JUNE 2019 HALF-YEARS)

ISSUED BUT NOT EFFECTIVE

New Standards	IFRS 16 *Leases*	
Amendments to standards	Amendment to IFRS 9: *Prepayment Features with Negative Compensation*	Amendment to IAS 28: *Long-Term Interests in Associates and Joint Ventures*
	Annual Improvements 2015-2017 Cycle	Amendment to IAS 19: *Plan Amendment, Curtailment or Settlement*
New Interpretations	IFRIC 23 *Uncertainty over Income Tax Treatments*	

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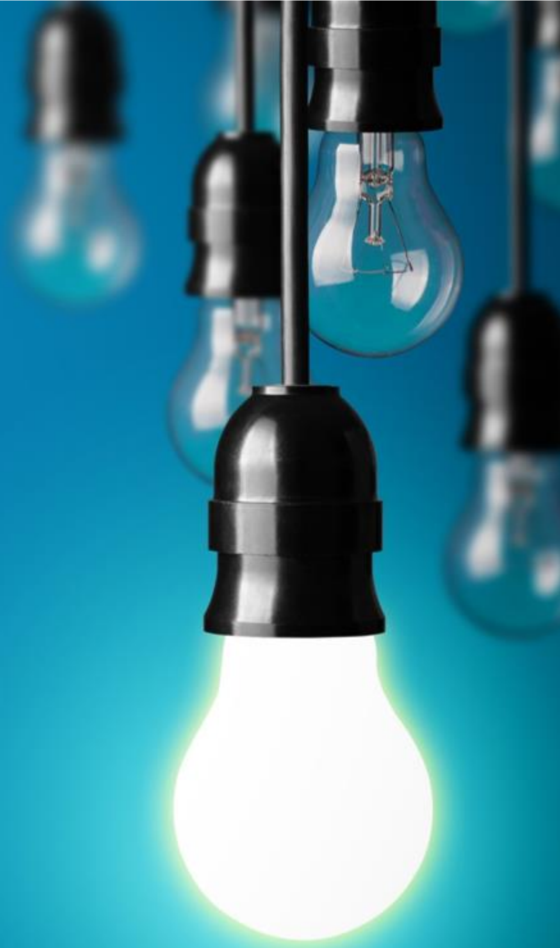
IFRS 16

Leases



IFRS 16 - INTRODUCTION

Financial statement impacts

Earnings	Statement of financial performance	Cash flow statement	Other
• Higher EBITDA • Lower net profit in early years (front-end loaded interest expenses)	• Higher assets (ROU assets) • Higher debt (lease liabilities) • Worsens current asset position	• Higher operating cash flows • Less financing activity cash flows (higher borrowings)	• Bank covenants (ratios, e.g. interest cover, EBITDA, debt: equity ratios) • Bonus arrangements • System changes (ROU asset registers, amortisation of liabilities)

IFRS 16
Further information

Publications

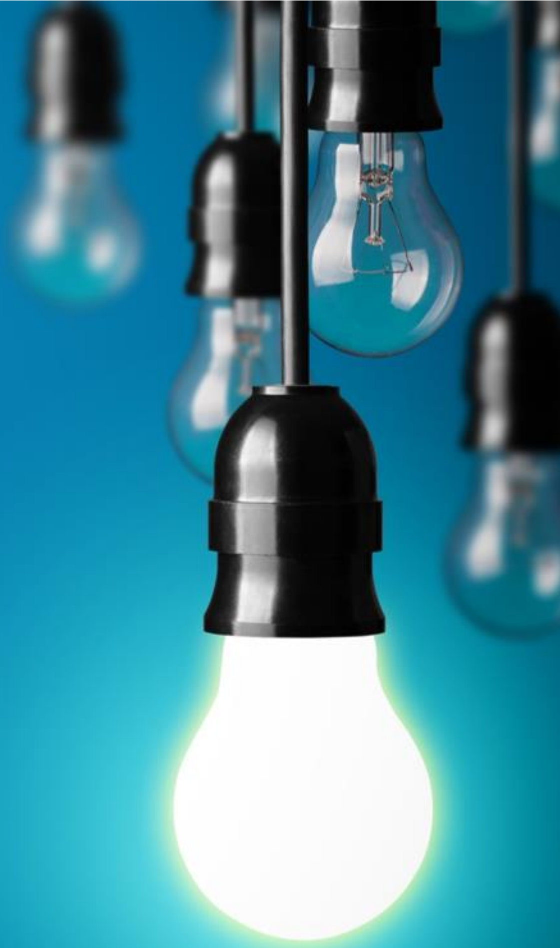
- IFRS in Practice 2019: IFRS 16 *Leases*

Online training courses

- IFRS 16: Introduction
- IFRS 16: Recognition exemptions
- IFRS 16: Identifying a lease
- IFRS 16: Determining the lease term (lessee)
- IFRS 16: Recognition and measurement (lessee)
- IFRS 16: Sale and leaseback transactions
- IFRS 16: Presentation
- IFRS 16: Lessor accounting
- IFRS 16: Transition

AMENDMENTS TO IFRS 9

Prepayment Features with Negative Compensation



AMENDMENTS TO IFRS 9

Financial assets with early prepayment options

Financial assets with early prepayment options are measured at amortised cost or FVTOCI

When are they measured at amortised cost or FVTOCI?

The business model is ‘hold to collect’

AND

The contractual terms permit early repayment by either party before maturity, at an amount that represents substantially the unpaid amounts of principal and interest

AMENDMENTS TO IFRS 9

What is the narrow scope amendment?

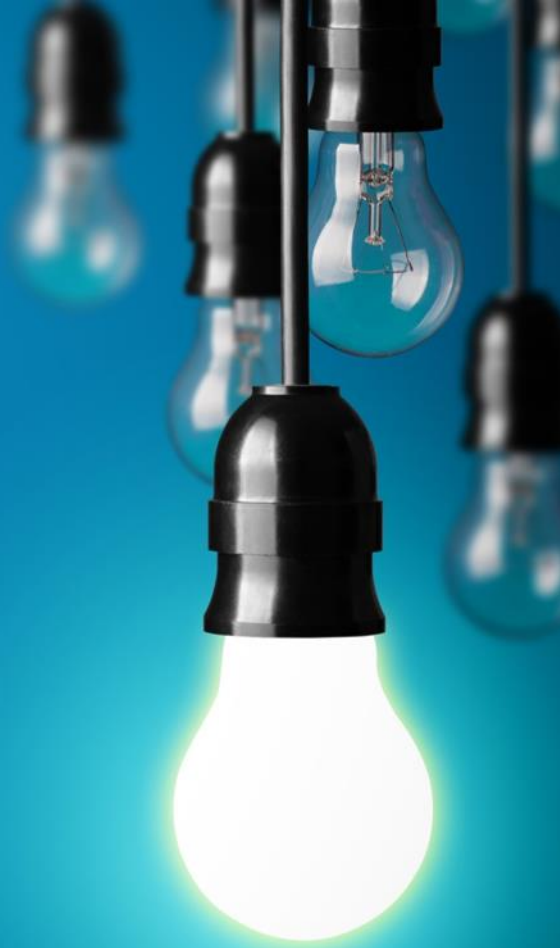
Exemption for early repayment of an instrument extended to cases where reasonable compensation could be a variable amount (i.e. more or less than unpaid amounts of principal and interest), such as:

- The instrument’s current fair value, or
- An amount that reflects the remaining contractual cash flows discounted at the current market interest rate.

If conditions are met, instrument continues to be held at amortised cost or FVTOCI

AMENDMENTS TO IAS 28

Long-Term Interests in Associates and Joint Ventures



AMENDMENT TO IAS 28

What do the changes clarify?

Loans advanced to an associate or joint venture, which in substance form part of the net investment but to which the equity method is not applied

Step 1

Test for impairment by applying the 'expected credit loss' model in IFRS 9 *Financial Instruments*

Step 2

Apply equity accounting to remaining balance (but stop when you reach zero) followed by an IAS 36 impairment test if the conditions in IAS 28.40-43 are met

AMENDMENT TO IAS 28

What entities will be impacted by these changes?

- Entities with investments in overseas exploration projects that are funded primarily through loans advanced to associates and joint ventures, rather than via equity funding.

ANNUAL IMPROVEMENTS CYCLE 2015-2017

ANNUAL IMPROVEMENTS CYCLE 2015-2017

Amendment to IFRS 3 *Business Combinations*

Situation

A party to a joint arrangement obtains **control** of a **joint operation** that is a **business.**

Clarification

This is a business combination achieved in stages.

Implications

Acquirer to remeasure previously held interests at acquisition date fair values as per IFRS 3.42 (as if entity had disposed of interest and re-acquired it at fair value).

ANNUAL IMPROVEMENTS CYCLE 2015-2017

Amendment to IFRS 11 *Joint Arrangements*

Situation

A party to a joint arrangement that is a **joint operation** does **not have joint control** of the joint operation. It **subsequently obtains joint control**.

Clarification

- When party subsequently obtains joint control, it must not remeasure its previously held interest.
- This treatment aligns with accounting when an associate becomes a joint venture and vice versa.

ANNUAL IMPROVEMENTS CYCLE 2015-2017

Amendment to IAS 12 *Income Taxes*

Situation

In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders. There is therefore an adjustment to tax payable when the distribution is made.

Clarification

Such income tax consequences must be recognised:

- At the same time as the liability to pay those dividends is recognised, and
- In profit or loss, other comprehensive income (OCI), or the statement of changes in equity (SOCIE), depending on where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

ANNUAL IMPROVEMENTS CYCLE 2015-2017

Amendment to IAS 23 *Borrowing Costs*

Likely to impact many entities

Situation

When an entity uses funds borrowed generally for the purposes of constructing a qualifying asset, paragraph 14 of IAS 23 requires it to apply a capitalisation rate to the expenditure on that qualifying asset. This capitalisation rate is the weighted average of the entity's borrowings that are outstanding during the period, excluding borrowings made specifically for the purpose of constructing that, or any other, qualifying asset.

Clarification

Once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale, those borrowings become part of the pool of general borrowings.

From that date, the rate applied on those borrowings are included in the determination of the capitalisation rate applied to general borrowings for the purposes of paragraph 14.

ISSUED BUT NOT EFFECTIVE

ISSUED BUT NOT EFFECTIVE

New Standards	IFRS 17 *Insurance Contracts******
Amendments to standards	Amendments to IFRS 3: *Definition of a Business***
	Amendments to IAS 1 & IAS 8: *Definition of Material***
New Interpretations	

** *Effective for annual periods beginning on or after 1 January 2020*

*** *Effective for annual periods beginning on or after 1 January 2021*

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IFRS INTERPRETATIONS COMMITTEE (IFRIC) AGENDA DECISIONS

IFRIC AGENDA DECISIONS

Time limits for entities to implement IFRS agenda decisions

When are agenda decisions published?

- The IFRS Interpretations Committee publishes agenda decisions after it determines there is sufficient guidance within existing IFRS guidance determine the correct accounting treatment

Do the agenda decisions form authoritative guidance?

- While not authoritative guidance, in practice these agenda decisions are regarded as being highly persuasive, and should be considered because they could impact the way particular transactions and balances are accounted for

IFRIC AGENDA DECISIONS

Meeting	Standard	Issue
January 2018	IAS 28	Contributing property, plant and equipment to an associate
March 2018	IFRS 9, IAS 1	Presentation of interest revenue for particular financial instruments
March 2018	IFRS 15	Revenue recognition in a real estate contract
March 2018	IFRS 15	Revenue recognition in a real estate contract that includes the transfer of land
March 2018	IFRS 15	Right to payment for performance completed to date
June 2018	IAS 7	Classification of short-term loans and credit facilities
September 2018	IAS 23	Expenditures on a Qualifying Asset
September 2018	IAS 23	Borrowing Costs on Land
September 2018	IAS 21	Determination of the Exchange Rate when there is a Long-term Lack of Exchangeability
September 2018	IFRS 9	Classification of a Particular Type of Dual Currency Bond

IFRIC AGENDA DECISIONS

Meeting	Standard	Issue
January 2019	IAS 37	Deposits relating to taxes other than income tax
January 2019	IFRS 15	Assessment of promised goods or services
January 2019	IAS 27	Investment in a subsidiary accounted for at cost: Partial disposal
January 2019	IAS 27	Investment in a subsidiary accounted for at cost: Step acquisition
March 2019	IFRS 9, IAS 39	Application of the highly probable requirement when a specific derivative is designated as a hedging instrument
March 2019	IFRS 9	Physical settlement of contracts to buy or sell a non-financial asset
March 2019	IFRS 9	Credit enhancement in the measurement of expected credit losses
March 2019	IFRS 9	Curing of a credit impaired financial asset
March 2019	IFRS 11	Sale of output by a joint operator
March 2019	IFRS 11	Liabilities in relation to a joint operators interest in a joint operation

IFRIC AGENDA DECISIONS

Meeting	Standard	Issue
March 2019	IAS 23	Over time transfer of constructed goods
March 2019	IAS 38	Customer’s right to receive access to the supplier’s software hosted on the cloud

NOT-FOR-PROFIT DEVELOPMENTS

NOT-FOR-PROFIT ENTITIES

Effective for first time - 30 June 2019

New Standards	IFRS 9 *Financial Instruments*

NOT-FOR-PROFIT ENTITIES

Effective for first time - 31 December 2019

New Standards	AASB 15 *Revenue from Contracts with Customers*	AASB 16 *Leases*
	AASB 1058 *Income of Not-for-Profit Entities*	
Amendments to standards	Annual Improvements 2014-2016 Cycle and Other Amendments (AASB 2017-1)	Amendment to IFRS 9: *Prepayment Features with Negative Compensation* (AASB 2017-6)
	Amendment to IAS 28: *Long-Term Interests in Associates and Joint Ventures* (AASB 2017-7)	Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Public Sector Licensors (AASB 2018-4)
	Annual Improvements 2015-2017 Cycle (AASB 2018-1)	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements (AASB 2018-3)
New Interpretations	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	IFRIC 23 *Uncertainty Over Income Tax Treatments*

NOT-FOR-PROFIT ENTITIES

Issued not effective

New Standards	AASB 1059 *Service Concession Arrangements: Grantors* **	IFRS 17 *Insurance Contracts****
Amendments to standards	Amendments to IFRS 3: *Definition of a Business***	Amendments to IAS 1 & IAS 8: *Definition of Material***
New Interpretations		

** *Effective for annual periods beginning on or after 1 January 2020*

*** *Effective for annual periods beginning on or after 1 January 2021*

NOT-FOR-PROFIT ENTITIES

AICD Governance principles

- Not-for-Profit Governance Principles (Second Edition) issued by Australian Institute of Company Directors (AICD) released in January 2019

- Expands on original 10 principles by providing
  - Supporting practices
  - Additional guidance
  - Case studies – a case study provided to illustrate how a large and small NFP could apply the principle

NOT-FOR-PROFIT ENTITIES

Reporting requirements for entities registered with the ACNC

Existing thresholds

Type of entity	Revenue thresholds	Financial report required	Audit or review engagement?
Small	Less than $250,000	X	N/A
Medium	Greater than or equal to $250,000 but less than $1 million	✔	Review engagement
Large	Greater than or equal to $1 million	✔	Audit

NOT-FOR-PROFIT ENTITIES

Reporting requirements for entities registered with the ACNC (cont)

Proposed thresholds - recommendations of Review Panel

Type of entity	Revenue thresholds (determined on a rolling three-year basis)	Financial report required	Audit or review engagement?
Small	Less than $1,000,000	X	N/A
Medium	Greater than or equal to $1,000,000 but less than $5 million	✔	Review engagement
Large	Greater than or equal to $5 million	✔	Audit

NOT-FOR-PROFIT ENTITIES

Deferral of requirement to fair value peppercorn leases

What is the current requirement?

- AASB 16.Aus25.1 requires NFPs to fair value right-of-use assets subject to peppercorn leases (significantly below market leases)
- Originally effective for periods beginning on or after 1 January 2019

NOT-FOR-PROFIT ENTITIES

Deferral of requirement to fair value peppercorn leases (cont)

AASB deferred this requirement at its 13 November 2018 meeting

Why?

'Given the prevalence of restrictions on ROU assets in the NFP sector, the Board prefers the interpretative issues arising from fair valuing such leases to be resolved as part of the fair value measurement project.'
AASB Action Alert, 14 November 2018

- Deferral option expected to remain in place until guidance has been developed for fair-valuing right-of-use assets (i.e. with restrictions) and the financial reporting requirements for private sector NFPs have been finalised

NOT-FOR-PROFIT ENTITIES

Duplicative financial reporting to end for Victorian incorporated associations

What are the changes?

- From 1 July 2018 financial statements for incorporated associated to be lodged with ACNC instead of Consumer Affairs Victoria (CAV)
  - No impact on financial statements for incorporated associations that previously prepared and lodged Tier 1 or Tier 2 GPFS. Simply lodge these with ACNC
  - Potential impact if previously lodged SPFS with CAV (see next slide)
- Annual fee no longer payable to CAV
- ACNC will share information with CAV

NOT -FOR-PROFIT ENTITIES

Duplicative financial reporting to end for Victorian incorporated associations (cont)

Minimum requirements for SPFS:

- SPFS lodged with ACNC must comply with the following minimum standards, required by section 60.30(2)(a) of the the Australian Charities and Not-for-profits Commission Regulation 2013
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Statement of Cash Flows*
  - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - AASB 1048 *Interpretation of Standards*
  - AASB 1054 *Australian Additional Disclosures.*

Transitional provisions - where minimum requirements not previously met

Period	What to lodge with ACNC?
Ending 30 June 2018 (or any later period approved by the ACNC Commissioner)	Same report that previously met CAV requirements
Ending 30 June 2019 (or any later period approved by the ACNC Commissioner)	Comply with AASB 101, 107, 108, 1048 and 1054 No comparatives but explain why
2020 reporting period and beyond	Comply with AASB 101, 107, 108, 1048 and 1054 Comparatives required

NOT-FOR-PROFIT ENTITIES

Duplicative financial reporting to end for NSW incorporated associations

What are the changes?

- From 1 October 2018 financial statements for NSW incorporated associations registered with the ACNC will no longer be lodged with NSW Fair Trading. This means that any 30 June 2018 financial reports will need to be lodged with the ACNC
  - No impact on financial statements for incorporated associations that previously prepared and lodged Tier 1 or Tier 2 GPFS. Simply lodge these with ACNC
  - Potential impact if previously lodged SPFS with NSW Fair Trading (see next slide)
- Annual lodgement fee no longer payable to NSW Fair Trading

NOT -FOR-PROFIT ENTITIES

Duplicative financial reporting to end for NSW incorporated associations (cont)

Minimum requirements for SPFS:

- SPFS lodged with ACNC must comply with the following minimum standards, required by section 60.30(2)(a) of the the Australian Charities and Not-for-profits Commission Regulation 2013
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Statement of Cash Flows*
  - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - AASB 1048 *Interpretation of Standards*
  - AASB 1054 *Australian Additional Disclosures*

Transitional provisions - where minimum requirements not previously met

Period	What to lodge with ACNC?
Ending 30 June 2018	Same report that previously met NSW Fair Trading requirements
Ending 30 June 2019	Comply with AASB 101, 107, 108, 1048 and 1054 No comparatives but explain why
2020 reporting period and beyond	Comply with AASB 101, 107, 108, 1048 and 1054 Comparatives required

NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES

AASB approves Implementation Guidance for NFP Public Sector Licensors

- Guidance added to AASB 15 (Appendix G) to explain and illustrate the licencing principles in AASB 15 from the perspective of a NFP public sector licensor
- Amendment is applicable for annual periods beginning on or after 1 January 2019
- The amendment:
  - Expands the scope of AASB 15 to include non-contractual licences such as those arising from statutory requirements
  - Provides a recognition exemption for short-term licences and licences for which the transaction price is low (although this is not available for licences with variable consideration in their terms and conditions)
  - Includes guidance for distinguishing a licence from a tax, and
  - Illustrates how AASB 15 or AASB 16 Leases would apply to non-IP licences (Appendix G, paragraph G1 includes a useful decision tree to assist).

DO YOU NEED ASSISTANCE?

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QUESTIONS

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