

AASB 1054 - what changes for you?

Reporting Update

5 December 2019, 19RU-017



Impacts Not-for-profits

Impacts publicly accountable entities

Not impact for-profit entities

More detail in Appendix

Highlights

- Two amendments...
- Not-for-profit basis of preparation
- Issued but not yet effective

Two amendments...

The AASB has issued two amendments to AASB 1054 *Australian Additional Disclosures*:

- 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*
- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*.

AASB 2019-4 is the next step in the wider Australian financial reporting reform project currently being undertaken by the Australian Accounting Standards Board (AASB). For a summary of steps in this project refer to KPMG's [website](#).

AASB 2019-5 will allow for-profit publicly accountable entities to continue to claim compliance with International Financial Reporting Standards (IFRS Standards).

Not-for-profit basis of preparation

AASB 2019-4 will impact all not-for-profit (NFP) entities preparing special purpose financial statements (SPFS) that are required, through legislation, to comply with AASB 101 *Presentation of Financial Statements* and AASB 1054. This includes:

- each NFP entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*
- each NFP entity, that has annual revenue of \$250,000 or more, lodging SPFS with the Australian Charities Not-for-profits Commission (ACNC) in accordance with the *ACNC Act 2012*.

When considering the feedback to the comments from the exposure draft previously issued the AASB decided that the amendments in AASB 2019-4 would **not apply** to for-profit sector entities preparing SPFS at this time.

The required disclosures do not require NFP entities to change their existing accounting policies. They are instead based on an entity's existing financial reporting policies and practices. Refer to the [Appendix](#) for further details on the required disclosures.

Applies 30 June 2020

The AASB see this amendment as a practical interim means of improving the quality of information provided to users of SPFS. The broader Australian financial reporting reform project is focusing on for-profit entities at present which is expected to be completed by 30 June 2020.

It is our understanding that the AASB's deliberations on the project to remove the ability of certain NFP entities to prepare SPFS when required to comply with Australian Accounting Standards (AAS) will follow the completion of the current for-profit project. The AASB 2019-4 amendments will apply at least until that point in time.

Timing

The amendments contained in AASB 2019-4 will apply to annual reporting periods ending on or after 30 June 2020. Early application is permitted.

KPMG comment

"We acknowledge the consistent feedback that the AASB has received on the need to improve comparability, consistency, transparency and enforceability in SPFS.

The additional disclosures are based on an entity's existing financial reporting and practices. The additional compliance cost should be minimal.

As an interim measure it will address (albeit to a limited extent) the AASB's concerns on the quality of disclosures in SPFS for NFP entities."

Michael Voogt

Director, Department of Professional Practice

Issued but not yet effective

AASB 2019-5 will impact all entities that:

- are required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*
- prepare general purpose financial statements (GPFS).

It will principally impact **for-profit entities with public accountability** (as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*). Such entities prepare GPFS – Tier 1 financial statements.

What is now required?

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of information around the impact of new Australian Accounting Standards that have been issued but are not yet effective (paragraphs 30 & 31).

AASB 2019-5 inserts a requirement in AASB 1054 for entities to make the same disclosures for International Financial Reporting Standards (IFRS Standards) that have been issued by the International Accounting Standards Board (IASB) but where the equivalent AAS has yet to be issued by the AASB.

Disclosure of this information is important to for-profit publicly accountable entities so that they can **continue to assert compliance with IFRS Standards**.

Refer to [Example Public Company Limited](#) (Note 46) for example of the required disclosure.

IFRS Standards issued but not yet adopted

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Applies 30 June 2021

Timing

The amendment contained in AASB 2019-5 will apply to annual reporting periods beginning on or after 1 January 2020. Early application is permitted.

KPMG comment

“Given the importance in maintaining compliance with IFRS Standards we would anticipate that all entities with public accountability (GPFS – Tier1) would adopt this amendment when next reporting.”

Michael Voogt

Director, Department of Professional Practice

Appendix - NFP basis of preparation

AASB 2019-4 will impact all NFP entities preparing SPFS by amending AASB 1054. The amendments do not impact for-profit entities preparing SPFS.

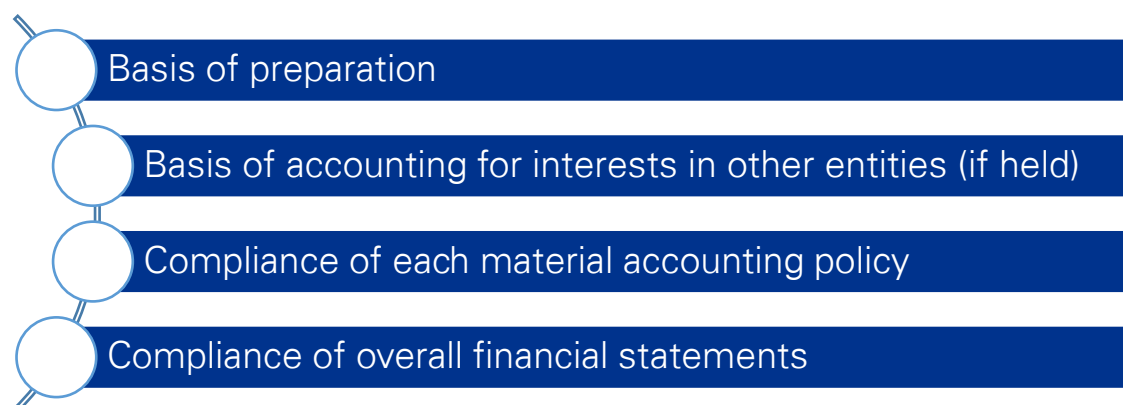
Scope

The following types of entities are in scope/out of scope of AASB 2019-4.

In scope	Out of scope
<ul style="list-style-type: none"> • Each NFP entity that is required to prepare financial reports in accordance with Part 2M.3 of the <i>Corporations Act 2001</i> • Each NFP entity, that has annual revenue of \$250,000 or more, lodging SPFS with the Australian Charities Not-for-profits Commission (ACNC) in accordance with the <i>ACNC Act 2012</i> 	<ul style="list-style-type: none"> • For-profit private and for-profit public sector entities preparing SPFS • NFP private sector entities regulated by ACNC <ul style="list-style-type: none"> – small charities with revenue of < than \$250,000 – entities with revenue greater than \$250,000 and are not required to comply with ACNC reporting requirements • NFP entities not registered with ACNC • NFP public sector entities • other NFP entities not required to comply with AASB 1054 by legislation or otherwise

What needs to be disclosed?

At a high level the proposals cover disclosure of information about the compliance with the R&M requirements in AAS. More specifically, a NFP entity preparing SPFS must disclose information in relation to each of the following:



Basis of preparation

A NFP entity is now required to disclose the basis on which the decision was made to prepare SPFS.

Illustrative disclosure

The illustrative disclosure could be as simple as:

Example Proprietary Company Ltd, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors, there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs.

Basis of accounting for interests in other entities

Where the NFP entity has investments in subsidiaries, associates or joint ventures disclosure is required of whether:

- they have been consolidated or equity accounted as appropriate, in accordance with AAS
- they are **not** consolidated or equity accounted – need to disclose the fact and the reasons why.

If the NFP entity hasn't determined whether any interest in other entities that it holds gives rise to interest in subsidiaries, associates or joint ventures it must disclose this fact.

Whether a NFP entity is required to make the above assessment should consider financial reporting legislative requirements.

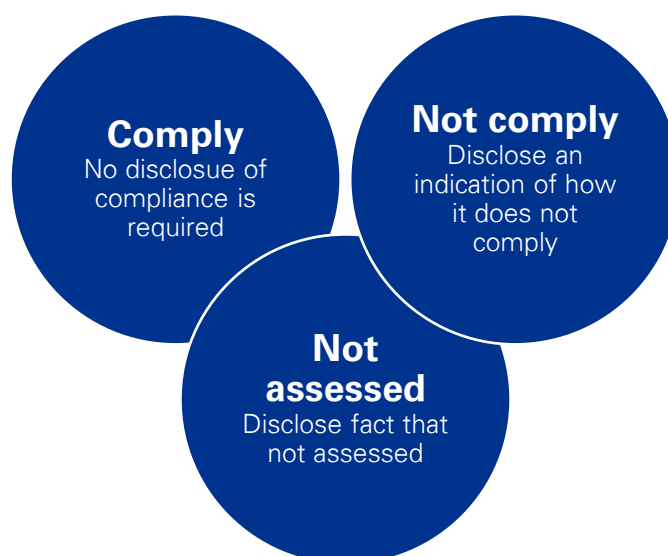
Illustrative disclosure

There are a number of examples provided in the '[Implementation guidance and illustrative examples](#)' section of AASB 2019-4.

Compliance of each material accounting policy

NFP entities will now be required to assess whether each material accounting policy applied and disclosed in the financial statements complies with all the R&M requirements in AAS (except for the requirements set out in AASB 10 or AASB 128).

Accounting policy assessment



Importantly a NFP entity is not expected to perform a detailed assessment of R&M differences if that has not already been performed. The extent of any non-compliance does not need to be quantified. This is deliberate as the AASB is not aiming to make the required disclosures onerous.

Illustrative disclosure

There are a number of examples provided in the '[Implementation guidance and illustrative examples](#)' section of AASB 2019-4.

Where an entity's accounting policies do not comply with R&M requirements in AAS (except for the requirements set out in AASB 10 or AASB 128), the presentation of the disclosure may differ. Entities may choose to provide the non-compliance and non-assessed policies in one place or placed with each accounting policy disclosed in the SPFS.

Disclosure of non-compliance with the R&M requirements will allow users of SPFS to seek additional information if required.

Compliance of overall financial statements

Whether the accounting policies applied in the financial statements comply with all the R&M requirements in AAS (except for the requirements set out in AASB 10 or AASB 128) – where an assessment is made. If no assessment is made an entity needs to disclose this fact.

The AASB considered where an entity has disclosed non-compliance with R&M requirements in AAS (except for the requirements set out in AASB 10 or AASB 128) for an accounting policy that is not material to the entity. In such situations it may be appropriate for the entity to claim that its financial statements overall complied with the R&M requirements in AAS.

Illustrative disclosure

The illustrative disclosure could be as simple as:

The special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards. The significant accounting policies adopted in the special purpose financial statements are set out in

Importantly the extent of any non-compliance does not need to be quantified. This is deliberate as the AASB is not aiming to make the required disclosures onerous.

There are a number of examples provided in the '[Implementation guidance and illustrative examples](#)' section of AASB 2019-4.

Why issue amendments?

Following from the various AASB research projects the AASB has expressed concern with the quality of disclosures in a significant number of SPFS is not sufficient to enable a user to determine what additional information they may need to make decisions about the allocation of economic resources.

The AASB have stated that they consider it unacceptable for financial statements available on public record to have such low levels of transparency.

The AASB has a project to consider the Standards-Setting Framework for both for-profit and NFP entities. The NFP project is still in its early stages – albeit (to date) much discussion and research has been completed. An aim of this project is to promote financial statements that are consistent, comparable, transparent and enforceable.

With the progression of the project there is a widely held view that entities preparing SPFS should be transparent and clearly articulate the basis of preparation of such financial statements. In response to this, the AASB has issued AASB 2019-4 to require specific disclosures around the compliance with R&M aspects of AAS for NFP entities.

The AASB also considers that this will help NFP entities assess their level of compliance with R&M requirements in AAS in preparation for a potential transition from SPFS to GPFS once its NFP Standards-Setting Framework progresses.

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