

Reporting entity concept and SPFS



31 July 2019

Highlights

- What is the issue?
- Special purpose financial statements

What is the issue?

In the course of considering applying the revised *Conceptual Framework for Financial Reporting* (RCF) in Australia, the AASB identified an inconsistency in the definition of 'reporting entity' in the RCF and the widely used and understood Australian 'reporting entity concept'.

This also drew attention to the more emotionally-charged issue of special purpose financial statements (SPFS). The AASB proposed a two-phased approach to address the issues identified in ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (ITC 39). Refer to the For-profit section for further detail on the two-phased approach.

Reporting entity definitions

IASB – RCF

- An entity requires, or chooses to prepare financial statements
- Can be a single entity/portion of an entity/comprise > one entity
- Not necessarily a legal entity

AASB – SAC 1

- An entity that is required to prepare general purpose financial statements



The RCF definition of a reporting entity determines a boundary for what economic activities need to be included in general purpose financial statements (GPFS). The SAC 1 *Definition of the Reporting Entity* definition of reporting entity determines who should prepare GPFS – all other entities can choose to prepare SPFS.

The concern is that the inconsistency between the two definitions could result in misinterpretation, the wrong application of Australian Accounting Standards or non-compliance with IFRS.

Special purpose financial statements issue

The dissatisfaction with SPFS has been building for some time as the proposition from which it was developed has diminished over the past 30 odd years. AASB data notes that greater than 60% of companies required to publicly lodge with ASIC lodge SPFS. The AASB would question if this is what was intended when the Australian 'reporting entity concept' was developed.

The AASB has also noted its legislative requirements under the ASIC Act require it to facilitate consistency, comparability and transparent financial statements. Arguably this is not best achieved with SPFS.

In making the move on SPFS, the AASB has acknowledged that this is an opportune time to deal with this issue. Australia is the only country permitting entities to self-assess what type of financial statements are required where financial statements are required by a regulator. The AASB sees this as a way to contribute to the current environment of building trust and comparability through transparency.

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