



Example Special Purpose Company Pty Ltd

(Non-reporting entity)

ABN:

Annual Financial Report
30 June 2021

November 2020

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How to use *Example Special Purpose Company Pty Ltd 30 June 2021 Annual Financial Report*

General purpose financial statements versus special purpose financial statements

The reporting entity concept and the concept of general purpose financial statements (GPFS) are entrenched in the application of Australian Accounting Standards. Statutory and non-statutory reporting entities prepare GPFS that comply with all applicable accounting standards, interpretations and other professional reporting requirements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* requires preparers to assess whether an entity has public accountability to determine if it qualifies for the preparation of Tier 2 GPFS under the differential reporting regime. In our view, any entity with public accountability must prepare Tier 1 full GPFS, regardless of whether it considers itself a reporting entity. Entities with public accountability include listed and disclosing entities, registered management schemes, APRA regulated superannuation funds, authorised deposit-taking institutions, co-operatives that issue debentures.

Non-reporting entities, both statutory and non-statutory, that do not have public accountability, may prepare special purpose financial statements (SPFS) which do not need to comply with all accounting standards. The “General purpose financial statements vs. Special purpose financial statements – decision tree” on the following page sets out KPMG’s view as to the minimum financial statement requirements in relation to general purpose and special purpose financial statements, and should be considered by financial statement preparers.

For illustrative disclosures and checklists for general purpose financial statements, entities should refer to the following resources:

- Tier 1 – *Example Public Company Limited – Illustrative disclosures 2020-21*; and *Annual Disclosure Checklist*
- Tier 2 – *Example Reduced Disclosure Requirements Proprietary Ltd 30 June 2021* and *Annual disclosure checklist – Reduced Disclosure Requirements*.

Applicability

The purpose of *Example Special Purpose Company Pty Ltd* is to assist non-reporting entities that are required to prepare financial statements under the *Corporations Act 2001* or have elected to prepare SPFS tailored specifically to the needs of the users, and that also meet legal and statutory requirements for **financial years ending 30 June 2021**.

The disclosure requirements applicable to annual reporting periods ending on or after 30 June 2020 for not-for-profit (NFP) private sector entities¹ that prepare SPFS are not illustrated in this document. Further details, including illustrative disclosures for affected NFP entities² can be found in [19RU-017 AASB 1054 – what changes for you?](#) and [Appendix 1](#) of this document.

For non-reporting proprietary entities that are not required to prepare financial statements under the *Corporations Act 2001*, the minimum standards required are outlined in the “General purpose financial statements vs. Special purpose financial statements – decision tree” below.

For financial years **beginning on or after 1 July 2021**, the ability of certain for-profit private sector entities to prepare SPFS has been removed. These entities will be required to prepare a form of GPFS. Further details of the amendments set out in AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* can be found in [20RU-006 Farewell SPFS... Welcome SD](#).

The AASB issued Exposure Draft ED 302 *Amendments to Australian Accounting Standards – Disclosures in*

¹ The AASB issued [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](#) to enable users to understand whether the material accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.

² NFP entities in scope of AASB 2019-4 are those (1) required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act 2001 or (2) regulated by the ACNC that generate annual revenue of \$250,000 or more.

Special Purpose Financial Statements of Certain For-profit Private Sector Entities, proposing that certain for-profit private sector entities preparing SPFS will have to disclose additional information about those financial statements. The proposed amendments were to apply for financial years ending on or after 30 June 2021. However, as communicated in AASB Action Alert No.205 for the November meeting, the Board decided to delay the effective date of the final amendments to financial years beginning on or after 1 July 2021. In doing so, the amendment will not apply to those entities within the scope of AASB 2020-2 (which has the same effective date). Further details of the proposed amendments can be found in [20RU-013 SPFS: Be clear on the basis of preparation](#). At the date of this publication no amending standard has been issued, which is expected to be issued in December 2020.

Proprietary company thresholds

Under the *Corporations Act 2001*, large proprietary companies are required to lodge an annual financial report, a director's report and an auditor's report with ASIC. Small proprietary companies have no such requirement to lodge (unless directed to by ASIC or directed by 5% or more of their shareholders).

A proprietary company is large if it meets **two** of the three thresholds at the end of its financial year. Otherwise it is small. The table below outlines the three thresholds.

Threshold	Financial years beginning before 1 July 2019	Financial years beginning from 1 July 2019
Consolidated revenue for the financial year *	\$25 million or more	\$50 million or more
Consolidated gross assets at the end of the financial year *	\$12.5 million or more	\$25 million or more
Employees [^] of the company and the entities it controls	50 FTE employees or more	100 FTE employees or more

*For the company and any controlled entities

[^]Part-time employees are counted as an appropriate fraction of the full-time equivalent (FTE)

Call to action regarding special purpose financial statements

The explanatory statement to the regulation change and subsequent commentary by both the AASB and ASIC has raised the issue around the ability of proprietary companies that remain large to continue preparing SPFS – before the effective date of the changes in *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*).

Non-reporting entities are entities in respect of which there is no expectation of the existence of users dependent on general purpose financial statements for information useful to them for making and evaluating decisions about the allocation of scarce resources.

In applying the definition of 'reporting entity', directors and auditors must consider whether there are existing or potential users who may be dependent on general purpose financial statements. Statement of Accounting Concept (SAC) 1 *Definition of the Reporting Entity*, as applied by ASIC is that existing shareholders are not the only users to consider; therefore, an entity should not be regarded as a non-reporting entity solely because there is little or no separation between its members and management (e.g. the shareholders are involved in the day-to-day management of the company). In ASIC's view, where a company has a significant number of creditors, employees or where the financial statements of a company have been accessed on a number of occasions over a 12-month period, it is considered reasonable to expect the existence of users dependent on general purpose financial statements.

The other primary factors discussed in SAC 1 are economic or political importance/ influence and the financial characteristics or indebtedness of an entity. Where an entity has a significant market share or has economic significance, it is also likely, due to its economic influence, to be a reporting entity. Also the larger the size or the greater the indebtedness or resources allocated, the more likely dependent users will exist.

All of these factors need to be considered and given equal consideration.

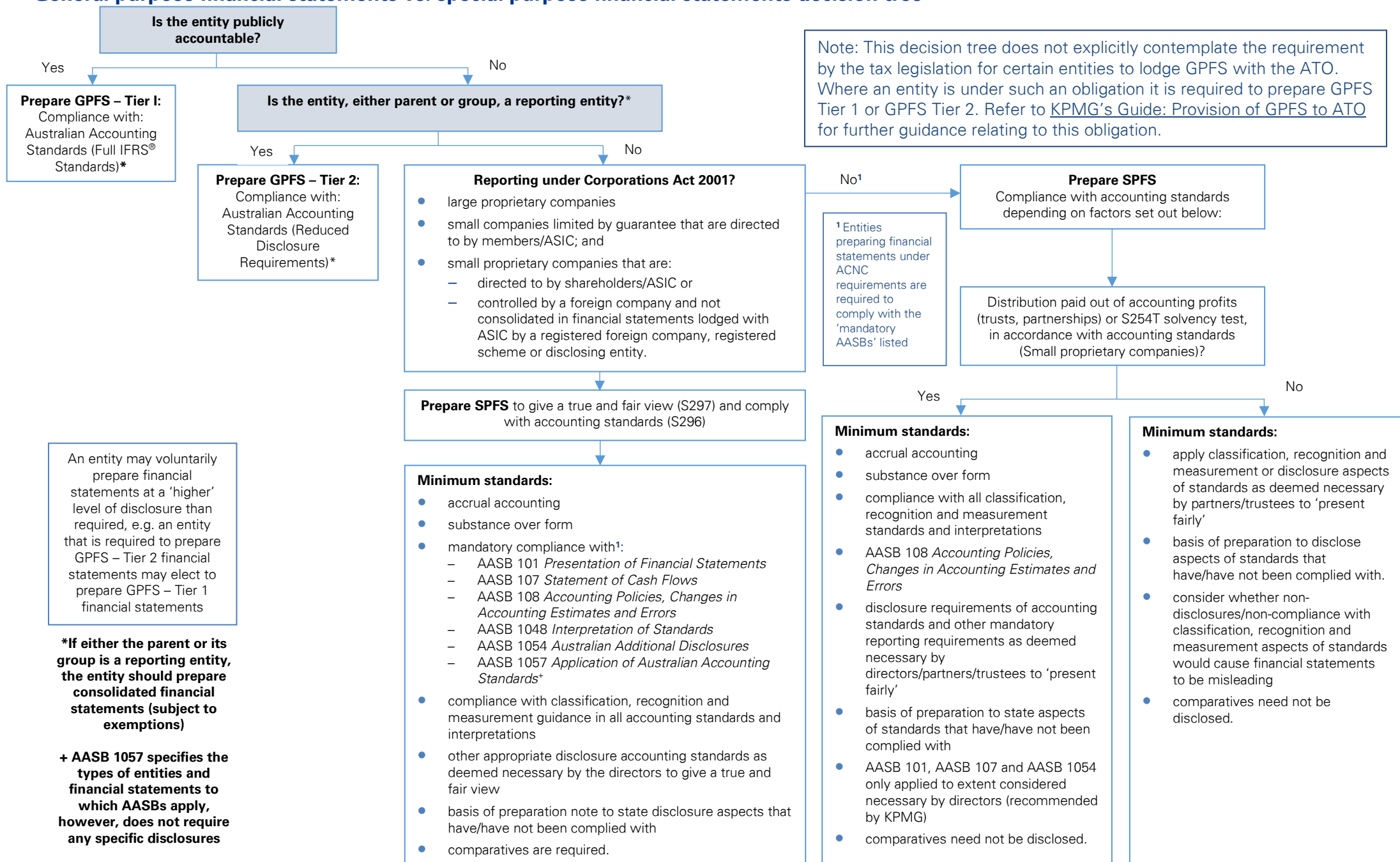
Directors should ensure that documentation of their considerations include the above factors, and how this impacts the basis of preparation of financial statements and compliance with Australian Accounting Standards. When considering which disclosures are relevant to the users of the financial statements, consideration should include the impact of the disclosures not being made (i.e. the impact of non-disclosure of this information on

the identified financial statement users) – not only the impact of disclosures that are to be included.

Example Special Purpose Company Pty Ltd illustrates **one possible format** for SPFS, based on a fictitious corporation **involved in general business**. It assumes the entity is a single entity and is not part of an economic entity which is a reporting entity requiring consolidated financial statements.

Further detail is discussed in [20RU-009 Large proprietary company still preparing SPFS?](#). This Reporting Update discusses the considerations around the preparation of SPFS for **both large and small** proprietary companies.

General purpose financial statements vs. special purpose financial statements decision tree



Note: This decision tree does not explicitly contemplate the requirement by the tax legislation for certain entities to lodge GPFS with the ATO. Where an entity is under such an obligation it is required to prepare GPFS Tier 1 or GPFS Tier 2. Refer to [KPMG's Guide: Provision of GPFS to ATO](#) for further guidance relating to this obligation.

An entity may voluntarily prepare financial statements at a 'higher' level of disclosure than required, e.g. an entity that is required to prepare GPFS – Tier 2 financial statements may elect to prepare GPFS – Tier 1 financial statements

***If either the parent or its group is a reporting entity, the entity should prepare consolidated financial statements (subject to exemptions)**

+ AASB 1057 specifies the types of entities and financial statements to which AASBs apply, however, does not require any specific disclosures

Compliance with AASB 101 *Presentation of Financial Statements*

Australian Accounting Standards

While SPFS prepared under the *Corporations Act 2001* are required to comply with all classification, recognition and measurement guidance in accounting standards and interpretations, the directors of *Corporations Act* entities and those reporting to the Australian Charities and Not-for-profit Commission (ACNC) must comply with the mandatory standards identified above. However, they have the discretion to comply with the disclosure aspects of other accounting standards only to the extent deemed necessary to give a true and fair view. The extent to which certain disclosure requirements are not applied should be adequately disclosed in the financial statements.

International Financial Reporting Standards

In addition to requiring an entity to disclose whether its financial statements are in accordance with Australian Accounting Standards (AASs), AASB 101 *Presentation of Financial Statements* specifically requires an entity whose financial statements and notes comply with IFRS® Standards to make an explicit and unreserved statement of such compliance in the notes. Most entities preparing SPFS choose to comply with only certain disclosure requirements of AASs, and thus are unable to make this statement of compliance with IFRS Standards. While there is no technical requirement it is also considered best practice that non-compliance with IFRS Standards be disclosed.

Materiality and Aggregation

AASB 101 requires each material class of similar items to be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial. The nature and function of items will vary from entity to entity, and thus preparers and users of this template should assess this requirement on an entity by entity basis, and determine if additional disclosures to those in this template are required. These disclosures can be made on the face of the primary statements or in notes to the financial statements.

Entities should also be aware that electing to not apply the disclosure requirements of certain other AASs does not override the AASB 101 disclosure requirements.

Assumptions in preparing Example Special Purpose Company Pty Ltd

Entity classification

The *Example Special Purpose Company Pty Ltd* also assumes that the entity:

- is not publicly accountable in accordance with AASB 1053 *Application of Tiers of Australian Accounting Standards*
- is not a reporting entity required to prepare SPFS in accordance with AASs adopted by the AASB
- is a single entity with no subsidiaries, associates or joint arrangements
- has not undertaken any previous business combinations, and thus has not recognised any goodwill
- is a statutory entity, and therefore reports under the *Corporations Act 2001*
- is not a disclosing entity for the purposes of the *Corporations Act 2001*
- is not part of a tax-consolidated group and therefore includes disclosures required for a single entity. ([Appendix 2](#) summarises example disclosures for a single entity that is part of a tax consolidated group)
- has not had a change in accounting policy, correction of an error or reclassification that would require restatement of its previous statement of financial position.

Coronavirus impacts

Example Special Purpose does not illustrate the potential impacts of COVID-19 on the hypothetical entity. Preparers should carefully evaluate and consider the impact of the outbreak on their 2021 annual financial reporting. For relevant guidance, see [COVID-19 supplement](#) and our [COVID-19: financial reporting website resource](#). We expect COVID-19 may affect the measurement and recognition of assets and liabilities, income and expenses. In addition, careful consideration of the going concern basis of preparation will be needed. Refer to [Appendix 3](#) for an example of going concern disclosures.

Consolidated Financial Statements

No consolidated financial statements have been prepared as the entity has no subsidiaries. Preparers of SPFS under Chapter 2M.3 of the *Corporations Act 2001* that choose to apply consolidation in financial statements should be aware that ASIC is of the view that parent entity financial statements are still required to be prepared where consolidated financial statements are presented in SPFS. Refer to KPMG's *Australian Financial Reporting Manual* Section 5.6.4.1.

Disclosures excluded

Basis of preparation of Example Special Purpose Company Pty Ltd

Example Special Purpose Company Pty Ltd assumes that the directors have applied the minimum disclosure requirements for SPFS prepared under the *Corporations Act 2001*, that is, compliance with the following pronouncements:

- 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 and Application of Standards*
- AASB 1053 *Application of Tiers of Australian Accounting Standards*[^]
- AASB 1054 *Australian Additional Disclosures*
- AASB 1057 *Application of Australian Accounting Standards*⁺.

[^] AASB 1053 must be considered by all Corporations Act entities, however, only applies to reporting entities preparing general purpose financial statements.

⁺ AASB 1057 specifies the types of entities and financial statements to which AASBs apply, however, does not require any specific disclosures

The specific disclosure requirements under the above standards are detailed in KPMG's *Special Purpose Disclosure Checklist*. The directors should consider whether any additional disclosures are required in order to present a "true and fair" view. Additional note disclosures are not included in this template. Other disclosures are not included in *Example Special Purpose Company Pty Ltd* as it is assumed this entity has not entered into such transactions. Reference should be made to *Example Public Company Limited – Illustrative disclosures 2020-21* for additional disclosures for the following:

Note reference in Example Public	Disclosure relating to	Note reference in Example Public	Disclosure relating to
7	Discontinued operation	23	Investment property
8	Revenue	24	Equity-accounted investees
9	Income and expenses	25	Other investments, including derivatives
10	Net finance costs	27	Capital management
12	Share-based payment arrangements	28	Loans and borrowings
13	Employee benefits	29	Trade and other payables
15	Income taxes	31	Provisions
16	Biological assets	32	Financial instruments – fair values and risk management
17	Inventories	37	Loan covenant waiver
18	Trade and other receivables	38	Leases
20	Disposal group held for sale	39	Commitments
21	Property, plant and equipment	40	Contingencies
22	Intangible assets and goodwill	41	Related parties
		42	Subsequent events

Reference should also be made to the *Annual Disclosure Checklist* and to *Example Public Company Limited – Illustrative disclosures 2020-21* where disclosures are required for consolidated financial statements.

Changes effective for the first time for financial years ending 30 June 2021 are highlighted by a blue line running down the left margin of the text.

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Directors' report

For the year ended 30 June 2021

[This directors' report sets out the requirements under the Corporations Act 2001 for an unlisted public or proprietary company. It does NOT set out all the requirements for a company limited by guarantee. Refer to the Australian Financial Reporting Manual Section 4.2.3 for directors' report requirements.]

The directors present their report together with the financial report of Example Special Purpose Company Pty Ltd ("the Company") for the year ended 30 June 2021 and the auditor's report thereon.

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

[Director name] Appointed [date] and *if applicable* Resigned [date]

[Director name] Appointed [date] and *if applicable* Resigned [date]

[Director name] Appointed [date] and *if applicable* Resigned [date]

2. Officers who were previously partners of the audit firm < delete if not applicable >

The following persons were officers of the Company during the financial year and were previously partners of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Company:

[Insert names if applicable]

3. Principal activities

The principal activities of the Company during the course of the financial year were [insert details].

There were no other significant changes in the nature of the activities of the Company during the year.

Objectives

The Company's objectives are to: [insert details].

Directors' report

For the year ended 30 June 2021

4. Review of operations and results of those operations

Review of [insert details]

Products [Insert details]

Market [Insert details]

Operating results [Insert details]

Commentary on operating results

[Insert details]

Strategy and future performance

[Insert details]

5. Significant changes in the state of affairs

[Insert details if relevant, or if no changes]:

In the opinion of the Directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

6. Environmental regulation

The Company's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its [insert details if relevant].

Directors' report

For the year ended 30 June 2021

7. Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Declared and paid during the year 2021

	Cents per share	Total amount \$	Date of payment
Final 2020 ordinary			
Final 2020 preference			
Total amount			

Declared after end of year

After the reporting date the following dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.

	Cents per share	Total amount \$	Date of payment
Final ordinary			
Final preference			
Total amount			

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2021 and will be recognised in subsequent financial reports.

Preference shares are classified as a liability and distributions paid are recognised as interest expense.

Dividends have been dealt with in the financial report as:

	Note	Total amount \$
– Dividends		
– Interest expense		
– Noted as a subsequent event		

8. Events subsequent to reporting date

[Insert details if relevant] or

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Directors' report

For the year ended 30 June 2021

9. Likely developments

The Company will continue to pursue its policy of [insert details, e.g. increasing the profitability and market share of its major business sectors during the next financial year]. This will require further investment in areas such as [insert details].

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

10. Directors' interests and share options < delete if not applicable >

[This heading and associated disclosure is not necessary if directors do not hold interests in the company and there are no options on issue. Refer to sections 11 and 12 of the Directors' Report in *Example Public Company Limited – Illustrative disclosures 2020-21* for example disclosures if relevant].

11. Indemnification and insurance of officers and auditors < delete if not applicable >

Indemnification

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company.

Insurance premiums

During the financial year the ultimate parent entity has paid premiums on behalf of the Company in respect of directors' and officers' liability and legal expenses insurance contracts for the year ended 30 June 2021 and since the financial year, the ultimate parent entity has paid or agreed to pay on behalf of the Company, premiums in respect of such insurance contracts for the year ending 30 June 2021. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the Company.

The directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

12. True and fair view < delete if not applicable >

[Details of the directors' reasons for disclosing the additional information and reference to where this information is disclosed should be inserted here, when applicable].

Directors' report

For the year ended 30 June 2021

13. Proceedings on behalf of the Company < delete if not applicable >

[Details of any proceedings should be inserted here, when applicable].

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page [xx] and forms part of the directors' report for the financial year ended 30 June 2021.

15. Rounding off < delete if not applicable >

[Include if relevant]

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made out in accordance with a resolution of the directors:

[Director name]

Director

Place

Date

Example Special Purpose Company Pty Ltd

Statement of financial position

As at 30 June 2021

In dollars

	Note	2021	2020
Assets			
Cash and cash equivalents	<u>4</u>		
Trade and other receivables			
Inventories			
Investments			
Current tax assets			
Prepayments			
Total current assets			
Trade and other receivables			
Investments			
Deferred tax assets			
Property, plant and equipment			
Intangible assets			
Total non-current assets			
Total assets			
Liabilities			
Bank overdraft	<u>4</u>		
Trade and other payables			
Loans and borrowings			
Current tax liabilities			
Provisions			
Deferred income/revenue			
Total current liabilities			
Loans and borrowings			
Employee benefits			
Deferred income/revenue			
Provisions			
Deferred tax liabilities			
Total non-current liabilities			
Total liabilities			
Net assets			
Equity			
Share capital	<u>5</u>		
Reserves	<u>5</u>		
Retained earnings	<u>5</u>		
Total equity			

The notes on pages [] to [] are an integral part of these financial statements.

Example Special Purpose Company Pty Ltd

Statement of profit or loss and other comprehensive income

7

For the year ended 30 June 2021

<i>In dollars</i>	Note	2021	2020
Revenue	<u>8</u>		
Cost of sales			
Gross profit			
Other income			
Selling and distribution expenses			
Administrative expenses			
Research and development expenses			
Impairment loss on trade receivables ³			
Other expenses			
Operating profit			
Finance income			
Finance costs			
Net finance costs			
Profit before tax			
Income tax expense			
Profit			
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Equity investments at FVOCI – net change in fair value [insert details]			
Related tax			
Items that are or may be reclassified subsequently to profit or loss:			
Debt investments at FVOCI – net change in fair value			
Debt investments at FVOCI – reclassified to profit or loss [insert details]			
Related tax			
Other comprehensive income, net of tax			
Total comprehensive income			

The notes on pages [] to [] are an integral part of these financial statements.

³ An entity that presents the analysis of expenses by function or by nature in the statement of profit or loss and OCI may face challenges in determining how this presentation interacts with the specific requirements to present the effect of some events or circumstances as a single amount in the statement of profit or loss and OCI – e.g. impairment losses under AASB 9. Judgement is applied in determining an appropriate presentation, ensuring that the chosen presentation is not misleading and is relevant to the users' understanding of its financial statements. [AASB 101.82(ba), 85, 31, 97, 99, Insights 4.1.20.40]

Example Special Purpose Company Pty Ltd

Statement of changes in equity

For the year ended 30 June 2021

<i>In dollars</i>	Note	Share capital	Fair value reserve	Convertible notes	Profits reserve	Retained earnings	Total equity
Balance at 1 July 2019							
Total comprehensive income							
Other comprehensive income							
Profit							
Total comprehensive income							
Transactions with owners of the Company							
Issue of ordinary shares							
Transfer to profits reserve							
Dividends							
Total transactions with owners of the Company							
Balance at 1 July 2020							
Total comprehensive income							
Other comprehensive income							
Profit							
Total comprehensive income							
Transactions with owners of the Company							
Issue of ordinary shares							
Issue of convertible notes							
Transfer to profits reserve							
Dividends							
Total transactions with owners of the Company							
Balance at 30 June 2021							

The amounts recognised directly in equity are disclosed net of tax.

The notes on pages [] to [] are an integral part of these financial statements.

Example Special Purpose Company Pty Ltd

Statement of cash flows

For the year ended 30 June 2021

In dollars

	<i>Note</i>	2021	2020
Cash flows from operating activities			
Cash receipts from customers			
Cash paid to suppliers and employees			
Cash generated from operating activities			
Interest paid			
Income taxes paid			
Net cash from operating activities	<u>4</u>		
Cash flows from investing activities			
Interest received			
Dividends received			
Proceeds from sale of property, plant and equipment			
Proceeds from sale of investments			
Acquisition of property, plant and equipment			
Acquisition of other investments			
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from issue of share capital			
Proceeds from issue of redeemable preference shares			
Transaction costs related to loans and borrowings			
Repayment of borrowings			
Payment of lease liabilities			
Dividends paid			
Net cash from (used in) financing activities⁴			
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at 1 July			
Effect of exchange rate fluctuations on cash held			
Cash and cash equivalents at 30 June	<u>4</u>		

The notes on pages [] to [] are an integral part of these financial statements.

⁴ Refer to Note 4 for additional disclosures associated with AASB 107 paragraph 44A: An entity provides disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and noncash changes.

Notes to the financial statements

1 Reporting entity

Example Special Purpose Company Pty Ltd (the "Company") is a Company domiciled in Australia. The address of the Company's registered office is [insert address]. [The parent [and ultimate parent] of the Company is [Name_of_parent] [and the ultimate parent is [name_of_ultimate_parent]]. The Company is a for-profit entity and primarily is involved in [insert details].

In the opinion of the directors, the Company is not publicly accountable nor a reporting entity, as it is unlikely there are users of these financial statements that exist who are not in a position to require the preparation of reports tailored to their information needs. The financial statements of the Company have been drawn up as special purpose financial statements for distribution to the members and for the purpose of fulfilling the requirements of the *Corporations Act 2001*.

*[The description of reporting entity above and basis of accounting in Note 2(a) are relevant to a **for-profit** company that is required to lodge financial statements under Chapter 2M of the Corporations Act. Other entities preparing special purpose financial statements should not use this wording. **NFP entities preparing special purpose financial statements should refer to Appendix 1 for additional requirements.**]*

Notes to the financial statements

2 Basis of preparation⁵**(a) Basis of accounting⁶**

[The notes to the financial statements of Example Special Purpose Company Pty Ltd have been prepared assuming that directors choose to exclude all disclosures except the minimum requirements for a “true and fair” view. In this case the following disclosure may be made]:

The special purpose financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and comply with all recognition, measurement and classification requirements in Australian Accounting Standards (AASs) adopted by the Australian Accounting Standards Board (AASB). The significant accounting policies adopted in these special purpose financial statements are set out in notes 2 and 3.

The special purpose financial statements include only the disclosure requirements of the following AASs⁷ and those disclosures considered necessary by the directors to meet the needs of members:

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*.

[If Directors choose to apply the above criteria, they are still required to consider whether any of the additional notes should be included in the financial statements where deemed necessary to present a “true and fair” view].

The financial statements do not comply with International Financial Reporting Standards adopted by the International Accounting Standards Board.

⁵ Although not illustrated, an entity considers whether it is relevant to disclose certain matters related to the use of the going concern basis of accounting in its financial statements. An entity discloses in financial statements any material uncertainties related to events or conditions that may cast significant doubt on its ability to continue as a going concern, identified before the date of authorisation for issue. Even when management concludes that there are no material uncertainties but reaching that conclusion involved significant judgement (a ‘close-call’ scenario), judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt on its ability to continue as a going concern need to be disclosed.

Refer to [Appendix 3](#) for example disclosures related to going concern matters due to coronavirus.

⁶ Additional disclosures are required by NFP entities preparing SPFS. See [Appendix 1](#).

⁷ AASB 1057 specifies the types of entities and financial statements to which AASs apply, however, does not require any specific disclosures.

Notes to the financial statements

2 Basis of preparation (continued)**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following material items, which are measured on an alternative basis at each reporting date.

Items	Measurement basis
Non-derivative financial instruments at fair value through profit or loss	Fair value
Debt and equity securities at FVOCI	Fair value

(c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency.

[If relevant] The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

[Include note(s) that are relevant and tailor note description(s)] of areas of estimation uncertainty

(i) Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is:

- Commission revenue: whether the Company acts as an agent in the transaction rather than as the principal;
- Lease term: whether the Company is reasonably certain to exercise extension options.

Notes to the financial statements

2 Basis of preparation (continued)**(d) Use of judgements and estimates (continued)****(ii) Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ending 30 June 2021 are:

- Revenue recognition: estimate of expected returns;
- Measurement of ECL allowance for trade receivables: key assumptions in determining the weighted-average loss rate;
- Recognition and impairment of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

The provision for warranties of \$[] (2020: \$[]) is based on estimates from historical warranty data associated with similar products and services. The Company expects to incur most of the liability over the next year.

- Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.

Deferred tax assets on unutilised losses of \$[] (2020: \$[]) have been recognised to the extent of the existence of sufficient future taxable profits. Changes in estimates of forecast profitability may result in future recognition of further losses amounting to \$[] (2020: \$[]).

(e) Changes in significant accounting policies

[Include note(s) that are relevant and tailor to the facts and circumstances of the entity].

Notes to the financial statements

3 Significant accounting policies

[Include note(s) that are relevant and tailor to the facts and circumstances of the entity].

Except for the changes explained in Note 2(e), the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Revenue⁸

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

The following provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

(i) [Example] product

Revenue is recognised when the goods are delivered and have been accepted by customers at their premises. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for specific types of paper, size, finish etc. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

Customers obtain control of [type] products when the goods are delivered to and have been accepted at their premises. Invoices are generated at that point in time. Invoices are usually payable within 30 days. No discounts are provided for [type] products.

Some contracts permit the customer to return an item. Returned goods are exchanged only for new goods – i.e. no cash refunds are offered.

(ii) [Example] services

Revenue is recognised over time as the services are provided [under a series]. The Company recognises revenue from rendering of services over time based on the cost-to-cost method.

If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated based on their relative stand-alone selling prices. The stand-alone selling price is determined based on the list prices at which the Company sells the services in separate transactions.

Invoices for [type of] services are issued on a monthly basis and are usually payable within 30 days.

(iii) Commissions

When the Company acts in the capacity of an agent rather than as the principal in a transaction, then the revenue recognised is the net amount of commission made by the Company.

⁸ Refer to Example Public 2020-21 Note 8(D) for illustrative disclosures relating to other types of revenue streams.

Notes to the financial statements

3. Significant accounting policies (continued)**(b) Finance income and finance costs**

The Company's finance income and finance costs include:

- interest income;
- interest expense;
- dividend income;
- dividend expense on preference shares issued classified as financial liabilities;
- the net gain or loss on the disposal of investments in debt securities measured at FVOCI;
- the net gain or loss on financial assets at FVTPL;
- the foreign currency gain or loss on financial assets and financial liabilities; and
- impairment losses (and reversals) on investments in debt securities carried at amortised cost or FVOCI.

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Company's right to receive payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency differences arising from the translation of equity investments (except on impairment in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss) are recognised in OCI.

Notes to the financial statements

3. Significant accounting policies (continued)**(d) Employee benefits****(i) Short-term employee benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are payable more than 12 months of the end of the reporting period, then they are discounted.

(e) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements

3. Significant accounting policies (continued)

(e) Income tax (continued)

(iii) Tax exposures

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

[Refer to Appendix 2 for example tax consolidation accounting policies].

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. [The cost of certain items of property, plant and equipment at 1 July 2005, the Company’s date of transition to IFRS Standards, was determined with reference to its fair value at that date].

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain and loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iii) Depreciation

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

	2021	2020
• buildings	[] years	[] years
• plant and equipment	[] years	[] years
• fixtures and fittings	[] years	[] years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the financial statements

3. Significant accounting policies (continued)

(h) Intangible assets

(i) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less any accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives are as follows:

	2021	2020
• patents and trademarks	[] years	[] years
• capitalised development costs	[] years	[] years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the financial statements

3. Significant accounting policies (continued)**(i) Financial instruments****(i) Recognition and initial measurement**

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement*Financial assets*

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

Notes to the financial statements

3. Significant accounting policies (continued)**(i) Financial instruments (continued)****(ii) Classification and subsequent measurement (continued)***Financial assets – Business model assessment (continued)*

- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Notes to the financial statements

3. Significant accounting policies (continued)**(i) Financial instruments (continued)****(ii) Classification and subsequent measurement (continued)***Financial assets – Subsequent measurement and gains and losses (continued)*

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition*Financial assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised. Financial assets at fair value through profit or loss

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Notes to the financial statements

3. Significant accounting policies (continued)**(i) Financial instruments (continued)****(iv) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) Share capital*Ordinary shares*

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

Preference share capital

The Company's redeemable preference shares are classified as financial liabilities, because they bear non-discretionary dividends and are redeemable in cash by the holders. Non-discretionary dividends thereon are recognised as interest expense in profit or loss as accrued.

Non-redeemable preference shares are classified as equity, because they bear discretionary dividends, do not contain any obligations to deliver cash or other financial assets and do not require settlement in a variable number of the Company's equity instruments. Discretionary dividends thereon are recognised as equity distributions on declaration by the directors.

(k) Impairment**(i) Non-derivative financial assets***Financial instruments*

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost; and
- debt investments measured at FVOCI.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Notes to the financial statements

3. Significant accounting policies (continued)**(k) Impairment (continued)****(i) Non-derivative financial assets (continued)**

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or higher per [Rating Agency X] or BBB- or higher per [Rating Agency Y].

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Notes to the financial statements

3. Significant accounting policies (continued)**(k) Impairment (continued)****(i) Non-derivative financial assets (continued)***Write-off*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amount of assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(iii) Site restoration

In accordance with the Company's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

Notes to the financial statements

3. Significant accounting policies (continued)**(l) Provisions (continued)****(iv) Onerous contracts**

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract (see Note [3(k)(ii)]).

(m) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee⁹

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;

3. Significant accounting policies (continued)**(m) Leases (continued)****(i) As a lessee (continued)**

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

⁹ The Company does not have any leases as lessor. For relevant illustrative disclosures for leases as lessor, refer to Example Public Company Limited 2020-21 Note 38(B).

Notes to the financial statements

- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Notes to the financial statements

4. Cash and cash equivalents (continued)

Changes in liabilities arising from financing activities¹⁰

	Other loans and borrowings	Liabilities Redeemable preference shares	Lease liabilities	Total
<i>In dollars</i>				
Balance at 1 July 2019				
Net cash flows from financing activities				
The effect of changes in foreign exchange rates				
Changes in fair value				
Other changes:				
New leases				
Capitalised borrowing costs				
Interest paid				
Income taxes paid				
Total other changes				
Balance at 30 June 2020				
Net cash flows from financing activities per Statement of cash flows				
The effect of changes in foreign exchange rates				
Changes in fair value				
Other changes:				
New leases				
Capitalised borrowing costs				
Interest paid				
Income taxes paid				
Total other changes				
Balance at 30 June 2021				

¹⁰ This disclosure provides one example of how to achieve the requirements of AASB 107 paragraph 44A. Other formats are acceptable to meet this disclosure requirement. AASB 107.44A requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and noncash changes.

Notes to the financial statements

5. Capital and reserves

(a) Share capital

<i>In dollars</i>	Ordinary shares		Non-redeemable preference shares	
	2021	2020	2021	2020
In issue at 1 July				
Issued for cash				
In issue at 30 June				

All shares rank equally with regard to the Company’s residual assets. Preference shareholders participate only to the extent of the face value of the shares.

(i) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. Holders of these shares are entitled to dividends as declared from time to time and are entitled to [] vote per share at meetings of the Company.

(ii) Non-redeemable preference shares

Holders of these shares receive a non-cumulative dividend of [] per share at the Company’s discretion, or whenever dividends to ordinary shareholders are declared. They do not have the right to participate in any additional dividends declared for ordinary shareholders. These shares do not have voting rights.

(b) Nature and purpose of reserves

(i) Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities designated at FVOCI; and
- the cumulative net change in the fair value of debt securities at FVOCI until the assets are derecognised or reclassified. This amount is adjusted by the amount of loss allowance.

(ii) Convertible notes

The reserve for convertible notes comprises the amount allocated to the equity component of the convertible notes issued by the Company in [month_year].

(iii) Profits reserve

The profits reserve comprises the transfer of net profit for the year and characterises profits available for distribution as dividends in future years. Dividends amounting to \$[] (2020: \$[]) were distributed from the profits reserve during the year.

Notes to the financial statements

5. Capital and reserves (continued)

(c) Dividends

The following dividends were declared and paid by the Company:

<i>In dollars</i>	Cents per share	Total amount	Date of payment
2021			
Final 2020 ordinary			
Final 2020 preference			
Total amount			
2020			
Final 2019 ordinary			
Final 2019 preference			
Total amount			

After 30 June 2021 the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

<i>In dollars</i>	Cents per share	Total amount	Date of payment
Final ordinary			
Final preference			
Total amount			

<i>In dollars</i>	2021	2020
Dividend franking account		
Amount of franking credits available to shareholders of Example Special Purpose Company Pty Ltd for subsequent financial years		

The ability to utilise the franking credits is dependent upon the ability to declare dividends.

Notes to the financial statements

6. Auditors' remuneration

In dollars

Fees paid to auditors of the Company – KPMG

Audit of financial statements

Audit [and review] of financial statements

Other services

Other regulatory assurance services [(dealer's licence, workers' compensation)]

Other assurance services

Other services – taxation and due diligence

[if relevant] Fees paid to other auditors

Audit of financial statements

Audit [and review] of financial statements

Other services

Other regulatory assurance services

Other assurance services

Other services – taxation and due diligence

	2021	2020
Fees paid to auditors of the Company – KPMG		
Audit of financial statements		
Audit [and review] of financial statements		
Other services		
Other regulatory assurance services [(dealer's licence, workers' compensation)]		
Other assurance services		
Other services – taxation and due diligence		
[if relevant] Fees paid to other auditors		
Audit of financial statements		
Audit [and review] of financial statements		
Other services		
Other regulatory assurance services		
Other assurance services		
Other services – taxation and due diligence		

7. Expenses by nature

In dollars

Depreciation

Amortisation

Employee benefits

	2021	2020
Depreciation		
Amortisation		
Employee benefits		

8. Revenue¹¹

In dollars

Revenue from contracts with customers

- Products

- Services

- Commissions

Other revenue

Total revenue

	2021	2020
Revenue from contracts with customers		
- Products		
- Services		
- Commissions		
Other revenue		
Total revenue		

¹¹ Although not required if compliance with AASB 15 disclosures is not claimed in Note 2(a), separate disclosure of revenue from contracts with customers is disclosed. Further disaggregation or revenue, in accordance with the guidance in AASB 15, should also be considered.

Notes to the financial statements

9. Standards issued not yet effective

A number of new standards are effective for annual periods beginning after 1 July 2021 and earlier application is permitted; however the Company has not early adopted the new or amended standards in preparing these financial statements.

The new standards are not expected to have a significant impact on the Company's financial statements, apart from:

- *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*
- *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

These standards remove the ability of the Company to prepare special purpose financial statements and will require the Company to prepare general purpose financial statements – Tier 2; and apply the disclosures set out in AASB 1060.

As the Company applies all the recognition and measurement requirements of all Australian Accounting Standards, there will be no impact¹² on the amounts recognised in the financial statements. More disclosure will be required relating to [revenue, income taxes, related party transactions, financial instruments and leases]¹³ than is currently provided.

Both standards will apply to the Company from the financial year beginning 1 July 2021; i.e. for the year ended 30 June 2022.

¹² Where an entity has not applied all recognition and measurement requirements of Australian Accounting Standards this should be disclosed, together with the expected impact, or if that impact is not known or reasonably estimable, a statement to that effect.

Where an entity is part of a group and will be required to apply consolidation or equity accounting for the first time this should be disclosed. Appropriate wording where the impact is not yet known would be:

“The Company will be required to consolidate [and/or equity account] its investments in subsidiaries [and joint ventures] for the first time. The impact of the change is not reasonably estimable as the [Company] has yet to [commence/complete] its assessment of the impact.”

¹³ Tailor areas to the facts and circumstances of the entity.

Directors' declaration

In the opinion of the directors of Example Special Purpose Company Pty Ltd ("the Company"):

- (a) the Company is not publicly accountable nor a reporting entity;
- (b) the financial statements and notes, set out on pages [xx to xx], are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2021 and of its performance for the financial year ended on that date in accordance with the basis of preparation described in Notes 1 to 3; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Note 2, and the *Corporations Regulations 2001*; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

Name of Director

Director

Dated at (City) this day of 20XX

[The wording in the director's declaration above is relevant for companies required to lodge financial statements under Chapter 2M of the Corporations Act. Other entities preparing special purpose financial statements should discuss their specific circumstances with their KPMG contact.]

Appendix 1 – Not-for-profit entities: basis of preparation

Not-for-profit basis of preparation

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* impacts 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 *Australian Additional Disclosures*. **AASB 2019-4 applies to annual reporting periods ending on or after 30 June 2020.** This Appendix provides guidance on the required disclosures.

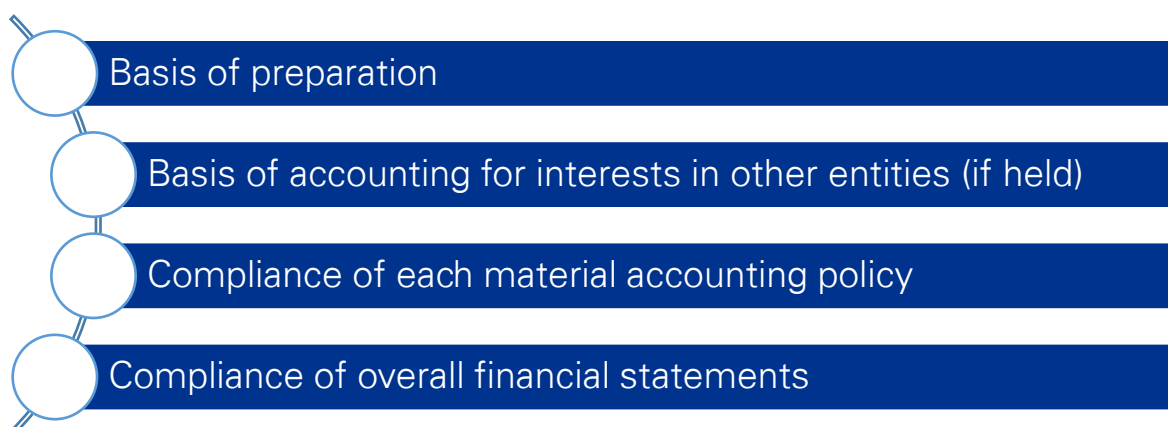
Scope

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:



Appendix 1 – Not-for-profit entities: basis of preparation

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.

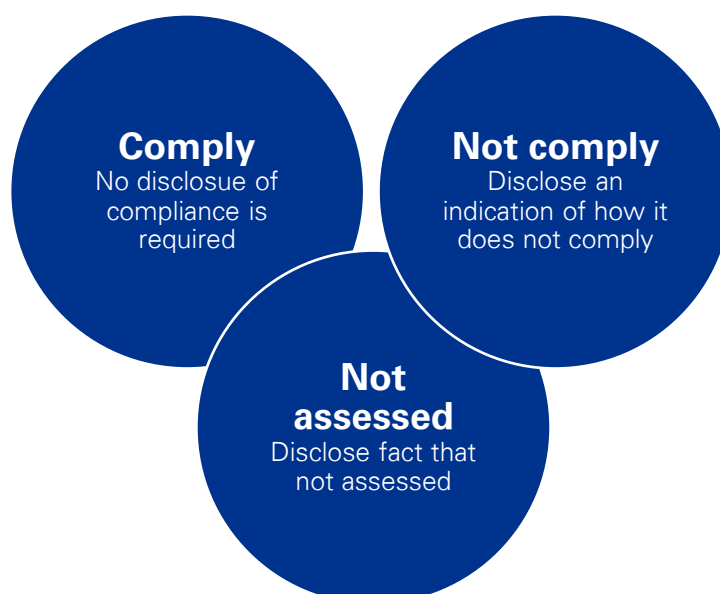
Illustrative disclosure

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



Appendix 1 – Not-for-profit entities: basis of preparation

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.

Appendix 2 – Example disclosures when part of a tax-consolidated group**Tax consolidation – AI 1052 disclosures**

This appendix provides extracts of example disclosures that would apply under AI 1052 *Tax Consolidation Accounting* when a tax funding arrangement is in place with a head entity. The disclosures are based on the following assumptions:

- the Company implemented tax consolidation as at 1 July 2003
- under the tax funding arrangement the intercompany charge recognised equals the current tax liability of the subsidiary, resulting in neither a contribution by the head entity to the subsidiary nor a distribution by the subsidiary to the head entity; and
- deferred taxes are calculated by reference to the carrying amounts of the assets within the separate financial statements of each entity (i.e. subsidiary carrying amounts less tax consolidation tax base).

Each entity will need to perform its own assessment of the impact AI 1052 has on its financial statements and provide disclosures accordingly.

The following pages are set out as follows:

- Example accounting policy for the 'separate taxpayer within the group' approach adopted by a subsidiary under AI 1052 *Tax Consolidation Accounting*
- Example accounting policy for the 'standalone taxpayer' approach adopted by a subsidiary under AI 1052 *Tax Consolidation Accounting*
- Example accounting policy for the 'group allocation' approach adopted by a subsidiary under AI 1052 *Tax Consolidation Accounting*
- Example disclosures for current tax assets and liabilities for a subsidiary in a tax-consolidated group
- Example related party disclosures under AASB 124 *Related Party Disclosures* for a subsidiary in a tax-consolidated group.

Appendix 2 – Example disclosures when part of a tax-consolidated group

Example accounting policy for the 'separate taxpayer within the group' approach adopted by a subsidiary under A1 1052 Tax Consolidation Accounting

Income tax

Tax consolidation

The Company is a wholly owned subsidiary in a tax-consolidated group with Example Public Company Limited as the head entity. The implementation date of the tax consolidation system for the tax-consolidated group was 1 July 2003.

Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the Company are assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (receivable) to other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution from or distribution to the head entity.

The Company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the assets can be utilised. The Company assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity, in accordance with AASB 112 applied in the context of the tax-consolidated group. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

Nature of tax funding arrangement and tax sharing agreements

The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-entity payable (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

[Insert significant terms and conditions of tax sharing agreement that may affect the amount, timing and uncertainty of future cash flows].

Appendix 2 – Example disclosures when part of a tax-consolidated group

Example accounting policy for the 'stand alone taxpayer' approach adopted by a subsidiary under AI 1052 Tax Consolidation Accounting

Income tax

Tax consolidation

The Company is a wholly owned subsidiary in a tax-consolidated group with Example Public Company Limited as the head entity. The implementation date of the tax consolidation system for the tax-consolidated group was 1 July 2003.

Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the Company are recognised using the 'stand alone taxpayer' approach whereby the Company measures its current and deferred taxes as if it continued to be a separately taxable entity in its own right. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the Company are assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (receivable) to other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution from or distribution to the head entity.

The Company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the Company will be available against which the assets can be utilised. The Company assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity, in accordance with AASB 112 applied in the context of the tax-consolidated group. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

Nature of tax funding arrangement and tax sharing agreements

The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-entity payable (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

[Insert significant terms and conditions of tax sharing agreement that may affect the amount, timing and uncertainty of future cash flows].

Appendix 2 – Example disclosures when part of a tax-consolidated group

Additional example notes to the financial statements for the 'group allocation' approach adopted by a subsidiary under AI 1052 Tax Consolidation Accounting

Income tax**Tax consolidation**

The Company is a wholly owned subsidiary in a tax-consolidated group with Example Public Company Limited as the head entity. The implementation date of the tax consolidation system for the tax-consolidated group was 1 July 2003.

Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated to the Company and recognised using a 'group allocation' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the Company are assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (receivable) to other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution from or distribution to the head entity.

The Company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the assets can be utilised. The Company assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity, in accordance with AASB 112 applied in the context of the tax-consolidated group. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

Nature of tax funding arrangement and tax sharing agreements

The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-entity payable (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

[Insert significant terms and conditions of tax sharing agreement that may affect the amount, timing and uncertainty of future cash flows].

Appendix 2 – Example disclosures when part of a tax-consolidated group

Additional example notes to the financial statements for the 'group allocation' approach adopted by a subsidiary under AI 1052 Tax Consolidation Accounting

Tax assets and liabilities¹

Current tax assets and liabilities

In accordance with AI 1052, the Company recognises in each reporting period current tax amounts. Subsequently, in accordance with the tax consolidation legislation, the head entity has assumed the current tax liability (asset) initially recognised by the Company. Hence, the Company's current tax liability (asset) has been derecognised immediately after its initial recognition.

Under the tax funding arrangement the Company and the head entity recognise an inter-entity payable (receivable) equal in amount to the current tax liability (asset) assumed. The Company continues to recognise tax expense (income) even though it has derecognised its current tax liability or asset.²

The Company's inter-entity payable of \$[] (2020: \$[]) relating to the current tax liability assumed by the head entity is included in trade and other payables.

Explanatory notes on tax consolidation

1. [AASB 112.12] A current tax liability or asset is recognised for income tax payable or recoverable in respect of all periods to date. Under AI 1052, this balance is assumed by the head entity of the tax-consolidated group.
2. [AI 1052.11(a), (b), (c)] Specific tax consolidation adjustments shall be accounted for by a subsidiary in a tax-consolidated group as follows:
 - a. current tax liabilities (or assets) recognised for the period by the subsidiary shall be accounted for as immediately assumed by the head entity
 - b. deferred tax assets arising from unused tax losses and unused relevant tax credits recognised for the period by the subsidiary shall be accounted for as immediately assumed by the head entity
 - c. assets and liabilities (if any) arising for the subsidiary under a tax funding arrangement shall be recognised as amounts receivable from or payable to other entities in the group; and
 - d. any differences between the net tax amount derecognised under paragraphs (a) and (b) and the net amount recognised under paragraph (c) shall be recognised as a contribution by (or distribution to) equity participants between the subsidiary and the head entity.

Appendix 2 – Example disclosures when part of a tax-consolidated group

Additional example notes to the financial statements for the ‘group allocation’ approach adopted by a subsidiary under AI 1052 Tax Consolidation Accounting

Tax assets and liabilities (continued)**Current tax assets and liabilities (continued)**

Explanatory notes on tax consolidation (continued)

[AI 1052.42] The derecognition of a subsidiary’s current tax liability (or asset) is treated under AI 1052 as a contribution by (or distribution to) the head entity, in conjunction with any tax funding arrangement amounts, on the basis that the transaction is with the parent in its capacity as the parent. The definition of “income” (or “expenses”) in the *Framework for the Preparation and Presentation of Financial Statements* cannot be satisfied, as the decrease in the subsidiary’s current tax liability (or asset) results from a contribution by or distribution to equity participants. AI 1052 does not prescribe which equity accounts are to be adjusted by subsidiaries for tax-consolidation contributions or distributions.

[AI 1052.44] The subsidiary recognises the assumption of its current tax liability or asset as a contribution by or distribution to the head entity, in conjunction with any tax funding arrangement amounts. Thus, the subsidiary continues to recognise tax expense (income) even though it derecognises its current tax liability or asset. The subsidiary may choose to classify a tax-consolidation equity contribution from the head entity as contributed equity other than paid-in capital. A transaction that would result in an equity reduction for the subsidiary may be subject to legal restrictions concerning capital distributions.

Related parties (tax consolidation)

[Refer Note 41 of Example Public Company Limited – Illustrative disclosures 2020-21 for further disclosures required. Below are example disclosures in respect of tax consolidation only].

Parent entity

The Company is a wholly owned subsidiary in a tax-consolidated group with its parent entity, Example Public Company Limited, as the head entity. The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement.

The Company’s inter-entity payable of \$[] (2020: \$[]) relating to the current tax liability assumed by the parent entity as the head entity, is included in trade and other payables.

For further details regarding tax consolidation and the nature of the tax funding arrangement and tax sharing agreement, refer to accounting policy Note 3(xx) and Note x.

Appendix 3 – Example of going concern disclosure relating to coronavirus

Where significant judgements are involved in concluding that the going concern assumption is appropriate, an example of a possible going concern disclosure (in italics), including associated considerations (in [brackets])

The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11 March 2020. The rapid rise of the virus has seen an unprecedented global response by Governments, regulators and industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020 which has seen the closure of Australian borders from 20 March, an increasing level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdowns and uncertainties.

For the year ended [30 June 2021], COVID-19 has impacted the Group, specifically as follows: [Consider providing details of the following:

- Consequences on the operations of the Group, for example, if any parts of the business have shut down or been restructured.
- Impacts on the financial position of the Group, for example, if there is a negative working capital or net liability position, any breaches of debt covenants with associated consequences on timing of debt repayments, and outstanding capital commitments.
- Implications on the current period financial performance and cash flows (particularly operating cash flows).
- Details of financing facilities sought and now available at balance date, potentially to cover any working capital deficiency, including expiry periods and any significant requirements under the facility agreements i.e. debt covenants.
- Details of financial support received from parent entity and/or governments in Australia or overseas].

This information should be followed by a discussion of how the **directors** have concluded that the Group is a going concern. This could include information of their assumptions and inputs used in their modelling of cash flow forecasts and actions the organisation will be embarking to support the going concern assumption. Illustrative example wording is provided below:

As of [insert date] 2021, the Group had net working capital [deficiency] of [\$xxx], and undrawn capacity under its debt facilities of [\$xxx] maturing in [insert details]. As of [balance date], the Group had capital commitments of [insert details].

The directors have prepared projected cash flow information for the [twelve months/longer] from the date of approval of these financial statements taking into consideration the estimation of the continued business impacts of COVID-19. In response to the uncertainty arising from this, the Directors have considered severe but plausible downside forecast scenarios.

These forecasts indicate that, taking account of reasonably possible downsides, the Group is expected to continue to operate, with headroom, within available cash levels and the terms of its debt facilities [or include details of expected risks of breaching terms]. Key to the forecasts are relevant assumptions regarding the business, business model, any legal or regulatory restrictions, financing and shareholder support, in particular: [insert details of scenarios and key assumptions made, the uncertainties attached to their execution, including any severe but plausible downside scenarios, such as:

- Description of the different scenarios modelled including length of government-imposed lockdowns and recovery periods, risks, conditions or dependencies for these to occur.
- Key assumptions related to customer actions and associated sales volumes, closure of operations in specific locations, key implications on supply chain and expected impacts of restructuring programs.
- Whether forecasts assume debt facilities remain available throughout the forecast period, and what actions are required to achieve this, e.g. renegotiation, waivers.
- Details of the results of the key scenario modelling on the entity's ability to meet its obligations over the forecast period.
- Mitigating actions undertaken or planned by directors and group to manage and respond to cash flow uncertainties or potential risks of shortfall in financing and the implementation status and uncertainties that arise from them].

Appendix 3 – Example of going concern disclosure relating to coronavirus

Where significant judgements are involved in concluding that the going concern assumption is appropriate, an example of a possible going concern disclosure (in italics), including associated considerations (in [brackets])

The directors remain focused on the Group's liquidity, and expect to manage business operations in the forecast period whilst maintaining adequate liquidity through the execution of:

[insert details of management's plans to ensure going concern remains appropriate along with the uncertainties to their execution, for example:

- Anticipated refinancing of debt arrangements or sourcing new financing options, which require X actions/approvals/events to occur.
- Expectations associated with capital raisings, which require X actions/approvals/events to occur.
- Plans to divest significant assets or businesses, which require X actions/approvals/events to occur.
- Deferral or suspension of non-critical or discretionary operating and capital expenditure.
- Deferral or suspension of dividends.
- Possible diversification or repurposing of operations for alternate income sources, which require X actions/approvals/events to occur].

Based on these forecasts, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis and have a reasonable expectation that the Group's [details of key covenants i.e. debt to equity ratio, interest cover ratio] will comply with the requirements of the debt facilities during the next twelve months.