

Be clear on the basis of preparation

Reporting update
28 June 2022, 22RU-14



Applies to certain for-profit entities preparing SPFS

Not-for-profit entities

No required change to accounting policies

30 June 2022

Highlights

- In summary
- Who will be impacted?
- What's being proposed?

In summary

The Australian Accounting Standards Board (AASB) has issued [AASB 2022-4 Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-profit Private Sector Entities](#) (AASB 2022-4).

AASB 2022-4 amends AASB 1054 *Australian Additional Disclosures*. It will add requirements for certain **for-profit private sector entities** that are preparing special purpose financial statements (SPFS) – user defined financial statements (UDFS) – to disclose information about those financial statements. This will include information that enables users of the financial statements to understand:

- the basis on which the decision to prepare SPFS was made,
- where the entity is a parent, whether or not its subsidiaries have been consolidated and its investments in associates or joint ventures have been equity accounted,
- the material accounting policies applied in the financial statements, changes in those policies and whether or not the policies comply with all the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS).

AASB 2022-4 is consistent with the guidance published for **not-for-profit** private sector entities in 2019. Details of this amendment are discussed in [19RU-017 AASB 1054 – What changes for you?](#)

The required disclosures do not require for-profit entities to change their existing accounting policies. They are instead based on an entity's existing financial reporting policies and practices.

Timing

While the standard was only issued in the late June 2022 it applies for annual periods ending on or after **30 June 2022**. This is a very short timeframe.

Who will be impacted?

The additional disclosure requirements in AASB 1054 will impact for-profit private sector entities:

Required by constituting document

- that are required only by their constituting document or another document to prepare financial statements that comply with AAS, and
- where that document was created before 1 July 2021 and has not been amended on or after that date.

Refer to [Appendix 1](#) for a diagram of the entities which may be impacted. We refer to the entities impacted by these amendments as the new framework 'grandfathered entities'.

The disclosures in AASB 2022-4 will enable users to clearly understand:

Increase comparability

- the basis of preparation of SPFS (UDFS) where the entity is required to comply with AAS, and
- the extent of compliance or otherwise of the entity's financial statements with AAS.

Without a clear explanation of what compliance with AAS means in the various scenarios where the preparation of financial statements that comply with AAS is possible, there is a risk of users being misled, particularly where SPFS are prepared and claim compliance with AAS.

AASB's view

It is the AASB's view that to meet users' stated needs to clearly understand the R&M basis of preparation of SPFS, where the entity is required to comply with AAS, additional prescribed disclosures are necessary.

Not impacted but may voluntarily elect to apply

Other entities not required to prepare financial statements in accordance with AAS or accounting standards are not within the scope of AASB 2022-4.

"We acknowledge the consistent feedback that the AASB has received on the need to improve comparability, consistency, transparency and enforceability in SPFS. These amendments will assist in making decisions about the allocation of economic resources.

Voluntary disclosure by others recommended

Given this feedback and the focus under the new framework on governance processes surrounding the preparation of financial statements and the consultation with all financial statement users on their needs, we recommend that all entities preparing SPFS voluntarily make the required disclosures – particularly the disclosure around the basis on which the decision to prepare SPFS was made."

Michael Voogt
Director, Department of Professional Practice

Outside of scope

Not applicable to those preparing GPFS

For constituting documents created or amended **after** 1 July 2021 a for-profit entity will be required to produce general purpose financial statements (GPFS) in accordance with AASB 1057 *Application of Australian Accounting Standards* (assuming the constituting document still requires financial statements that comply with AAS).

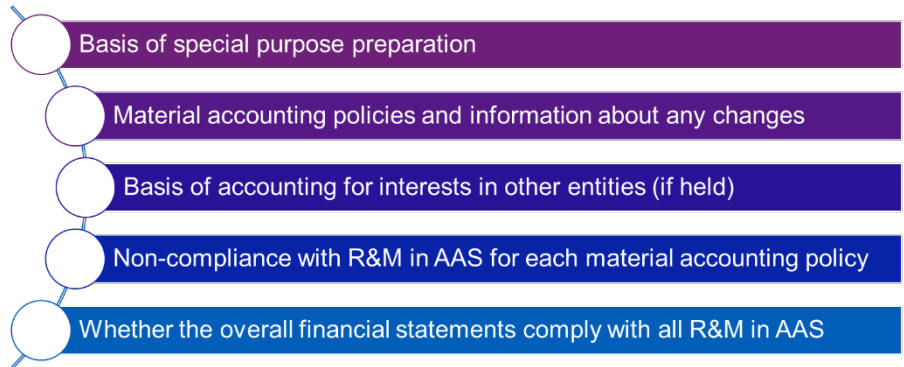
Further details are discussed in [20RU-006 Farwell SPFS ... Welcome Simplified Disclosures](#).

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What's being proposed?

At a high level the amendments cover disclosure of information about the compliance with R&M requirements in AAS. More specifically, it is proposed that a for-profit private sector entity must disclose information in relation to each of the following:

Required disclosures



R&M – recognition and measurement
AAS – Australian Accounting standards

Not quantify

In disclosing the above information, entities are not expected to provide quantitative information, or reconciliations, where accounting policies do not comply with all the R&M requirements in AAS.

Not considered onerous

The AASB noted it did not expect these disclosures to be onerous and that entities still had the option of changing their constituting or other documents to avoid reference to AAS should they wish to do so.

For further details on each of the above required disclosures refer to [Appendix 2](#).

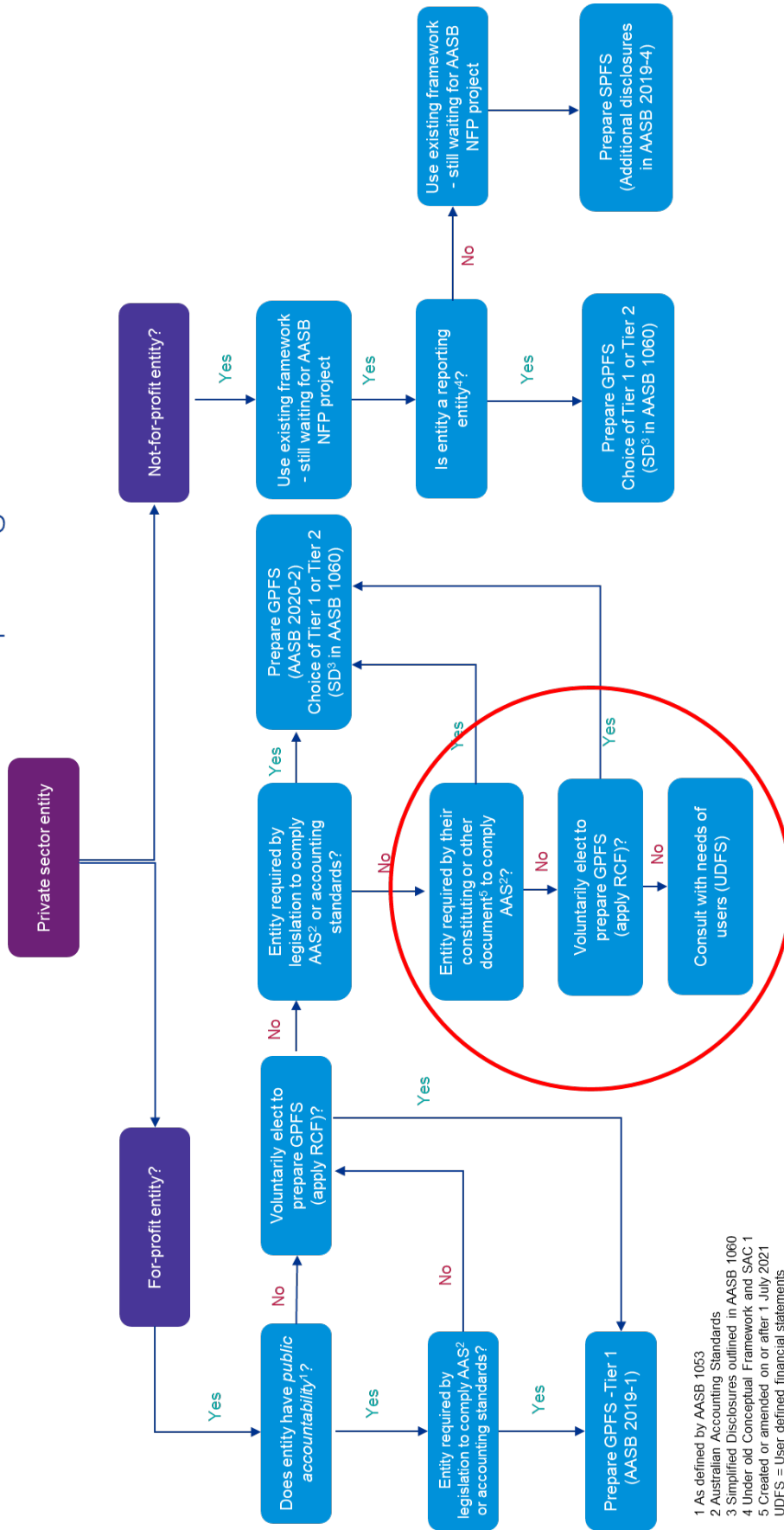
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"New" Australian Private Sector Financial Reporting Framework



1 As defined by AASB 1053
 2 Australian Accounting Standards
 3 Simplified Disclosures outlined in AASB 1060
 4 Under old Conceptual Framework and SAC 1
 5 Created or amended on or after 1 July 2021
 UDFS = User defined financial statements
 RCF = Revised conceptual framework

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Appendix 2 - Disclosures

A for-profit entity that is impacted by these amendments will be required to disclose the following, in addition to those other disclosures required by AASB 1054, when such an entity in scope prepares SPFS.

Basis of preparation [Paragraph 9C(a)]

For-profit private sector entities within the scope of AASB 1054 that are preparing SPFS are required to disclose the reasons why the preparation of SPFS was considered appropriate. It is not sufficient for the entity to merely disclose that it is 'not a reporting entity'. The entity must articulate the reasons why it concluded GPFS were not required.

Illustrative disclosure

The illustrative disclosure could be as simple as:

Example Small Proprietary Company Pty Ltd, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors, after consultation with financial statement users (including regulators where applicable):

- *the Company is not publicly accountable*
- *the Company is not required by applicable legislation or its constituting document to prepare general purpose financial statements*
- *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.*

Example completed basis of preparation note for individual, separate and consolidated financial statements is at the end of this appendix.

Where the directors make the above statement we would recommend, that as part of normal governance procedures, that a robust consultation process with all users (including owners, bankers, creditors, employees and any applicable regulators) is undertaken to determine an appropriate basis of preparation for the financial statements. This process should be appropriately documented.

Where the directors are unable to make each of these statements, then GPFS should most likely be prepared.

Material accounting policies [Paragraph 9C(b) and (c)]

For-profit private sector entities within the scope of AASB 1054 that are preparing SPFS are required to include sufficient information to enable users of those SPFS to obtain an understanding of the material accounting policies applied in the preparation of the SPFS, including changes in those policies.

Illustrative disclosure

For-profit entities will hopefully have already been including material accounting policies in their SPFS. Examples of material accounting policies can be found in Note 45 of [Example Public Company Limited](#).

Basis of accounting for interests in other entities [Paragraph 9C(d)]

This disclosure impacts entities which are parents and have interests in other entities. The disclosure is to confirm whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate.

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If the entity has **not** consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, the entity discloses that fact and the reasons why.

Exemptions from consolidation of subsidiaries are provided in AASB 10, paragraphs 4(a)-Aus4.2, including when:

- the entity is a subsidiary (where the owners do not object to not presenting consolidated financial statements),
- its debt or equity instruments are not traded in or to be issued in a public market, and
- its ultimate parent produces consolidated financial statements that are available for public use and comply with accounting standards (either IFRS[®] Accounting Standards or Australian Accounting Standards).

There is a similar exemption from equity accounting in AASB 128, paragraphs 17-Aus17.2.

Unlike the amendments in AASB 2019-4 that cover not-for-profit entities (which can state that they have not made an assessment of control, joint control or significant influence), a for-profit entity **is** required to determine, where it has interests in other entities, whether it has control, joint control or significant influence of those other entities.

Illustrative disclosure

No consolidation

Consolidated financial statements have not been prepared for Example Small Proprietary Company Pty Ltd and its subsidiaries as the Directors have decided not to comply with AASB 10 Consolidated Financial Statements – the Directors would provide consolidated information to financial statement users upon request.

Example completed basis of preparation note for individual, separate and consolidated financial statements is at the end of this appendix.

Consolidation

Subsidiaries have been consolidated in accordance with the requirements of AASB 10 Consolidated Financial Statements – see accounting policy in Note X. Investments in associates or joint ventures have been equity accounted in accordance with the requirements of AASB 128 Investments in Associates and Joint Ventures – see accounting policy in Note Y.

Example completed basis of preparation note for individual, separate and consolidated financial statements is at the end of this appendix.

Accounting policy non-compliance with R&M in AAS [Paragraph 9C(e)]

For each material accounting policy applied and disclosed in the financial statements an entity must first assess whether those policies comply with the R&M requirements in AAS (except for requirements set out in AASB 10 or AASB 128).

If it does not comply the entity must disclose an indication of how it does not comply.

If it complies no additional disclosures are required. Although in order to promote clarity for financial statements users the entity may make a simple statement that “*the accounting policy complies with recognition and measurement principles in Australian Accounting Standards*”.

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Unlike the amendments in AASB 2019-4 that cover not-for-profit entities (which can state that they have not made an assessment), a for-profit entity **is** required to make the assessment for material accounting policies' compliance with R&M requirements in AAS.

Illustrative disclosure

Compliance

The special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards.

Example completed basis of preparation note for individual, separate and consolidated financial statements is at the end of this appendix.

Non-compliance

There are a number of examples provided in AASB 2022-4.IG31.

Overall financial statement compliance with R&M in AAS [Paragraph 9C(f)]

For-profit private sector entities within the scope of AASB 1054 that are preparing SPFS are required to disclose whether or not the financial statements overall comply with all the R&M requirements in AAS (except for requirements set out in AASB 10 or AASB 128).

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.

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.

Unlike the amendments in AASB 2019-4 that cover not-for-profit entities (which can state that they have not made an assessment), a for-profit entity **is** required to make the assessment for overall financial statement compliance with R&M requirements in AAS.

Illustrative disclosure

Compliance

The illustrative disclosure could be as simple as (where **all** R&M have been complied with):

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

Example completed basis of preparation note for individual, separate and consolidated financial statements is at the end of this appendix.

Non-compliance

There are a number of examples provided in AASB 2022-4.IG31.

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Example basis of preparation note – Special purpose (User defined) financial statements

Individual financial statements

(no controlled entities or investments in associates or joint ventures)

Example Small Proprietary Company Pty Ltd, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors¹, after consultation with financial statement users (including regulators where applicable):

- the Company is not publicly accountable
- the Company is not required by applicable legislation or its constituting document to prepare general purpose financial statements
- 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.

The special purpose financial statements of the Company have been drawn up as special purpose financial statements for [insert purpose²].

The special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards³. The material accounting policies adopted in the special purpose financial statements are set out in ...

The Company has consistently applied these material accounting policies to all periods presented in these financial statements, except for the changes described in Note Z⁴.

The special purpose financial statements include only the disclosures of the following Australian Accounting Standards and those disclosures considered necessary by the directors to meet the needs of users:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1054 *Australian Additional Disclosures*
- **[List other applicable standards]**

Notes

- 1 Where the directors are unable to make each of these statements, then GPFS should most likely be prepared.
- 2 Examples of 'purpose' are listed at the end of this appendix.
- 3 For each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128), disclose an indication of how it does not comply. [AASB 1054.9C(e)]
- 4 When a change in a material accounting policy has an effect on the current period or any prior period, specific disclosures relating to the nature and impact of the change are required. [AASB 1054.9C(c)]

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Separate financial statements

(is a parent, but not present consolidated financial statements)

Example Small Proprietary Company Pty Ltd, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors¹, after consultation with financial statement users (including regulators where applicable):

- the Company is not publicly accountable
- the Company is not required by applicable legislation or its constituting document to prepare general purpose financial statements
- 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.

Consolidated financial statements have not been prepared for Example Small Proprietary Company Pty Ltd and its subsidiaries as the Directors have decided not to comply with AASB 10 *Consolidated Financial Statements* – the Directors would provide consolidated information to financial statement users upon request.

The special purpose financial statements of the Company have been drawn up as special purpose financial statements for [insert purpose²].

The special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards, except for AASB 10 as noted above³. The material accounting policies adopted in the special purpose financial statements are set out in ...

The Company has consistently applied these material accounting policies to all periods presented in these financial statements, except for the changes described in Note Z⁴.

The special purpose financial statements include only the disclosures of the following Australian Accounting Standards and those disclosures considered necessary by the directors to meet the needs of users:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1054 *Australian Additional Disclosures*
- **[List other applicable standards]**

Notes

- 1 Where the directors are unable to make each of these statements, then GPFS should most likely be prepared.
- 2 Examples of 'purpose' are listed at the end of this appendix.
- 3 For each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128), disclose an indication of how it does not comply. [AASB 1054.9C(e)]
- 4 When a change in a material accounting policy has an effect on the current period or any prior period, specific disclosures relating to the nature and impact of the change are required. [AASB 1054.9C(c)]

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Consolidated financial statements

These consolidated financial statements comprise Example Small Proprietary Company Pty Ltd and its subsidiaries (together referred to as the 'Group').

The Group, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors of the Company¹, after consultation with financial statement users (including regulators where applicable):

- the Company and the Group are not publicly accountable
- the Company and the Group are not required by applicable legislation or the Company's constituting document to prepare general purpose financial statements
- 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.

The special purpose financial statements of the Group have been drawn up as special purpose financial statements for [insert purpose²].

Subsidiaries have been consolidated in accordance with the requirements of AASB 10 *Consolidated Financial Statements* – see accounting policy in Note X. Investments in associates or joint ventures have been equity accounted in accordance with the requirements of AASB 128 *Investments in Associates and Joint Ventures* – see accounting policy in Note Y.

The consolidated financial statements comply with all recognition and measurement requirements in Australian Accounting Standards³. The material accounting policies adopted in the special purpose consolidated financial statements are set out in ...

The Group has consistently applied these material accounting policies to all periods presented in these financial statements, except for the changes described in Note Z⁴.

The consolidated financial statements include only the disclosures of the following Australian Accounting Standards and those disclosures considered necessary by the directors to meet the needs of users:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1054 *Australian Additional Disclosures*
- **[List other applicable standards]**

Notes

- 1 Where the directors are unable to make each of these statements, then GPFS should most likely be prepared.
- 2 Examples of 'purpose' are listed at the end of this appendix.
- 3 For each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128), disclose an indication of how it does not comply. [AASB 1054.9C(e)]
- 4 When a change in a material accounting policy has an effect on the current period or any prior period, specific disclosures relating to the nature and impact of the change are required. [AASB 1054.9C(c)]

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Example wording – ‘purpose’

The following examples of why SPFS have been prepared may apply to your facts and circumstances. If not, you will need to construct appropriate wording.

The special purpose financial statements of the Company/Group have been drawn up as special purpose financial statements to satisfy ... (insert one of the following):

- the ultimate parent’s consolidated group reporting obligations.
- the Company’s/Group’s reporting requirements under its financial agreement with Bank X, which requires the financial statements to comply with Australian Accounting Standards.
- the Company’s/Group’s reporting requirements under a raw material supply agreement with Supplier S, which requires the financial statements to comply with Australian Accounting Standards.
- the Trustee’s reporting requirements under the trust deed, which requires the financial statements to comply with Australian Accounting Standards.

Highlighted text – only include this wording if it is actually a relevant requirement of the respective document.

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