Transition to Simplified Disclosures

KPMG's practical guide to first-time adoption of GPFS-Tier 2 SD

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Transition to Simplified Disclosures

The reporting entity concept, which is unique to Australia, is ending after a 30-year run. It will be replaced by a framework where there is no longer any subjectivity around which category of reporting an entity falls into. We see this as a positive step by the Australian Accounting Standards Board.

The new framework for for-profit private sector financial reporting consists of two Tiers of financial reporting for preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards (in full)
- Tier 2: Australian Accounting Standards – Simplified Disclosures.

Tier 1 incorporates International Financial Reporting Standards (IFRS® Accounting Standards) issued by the International Accounting Standards Board and includes requirements that are specific to Australian entities.

Tier 2 comprises the recognition and measurement requirements of Tier 1 (including consolidation and the equity method of accounting, where applicable) but substantially reduced disclosure requirements. Tier 2 disclosure requirements are set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

The new framework is effective for financial years beginning on or after 1 July 2021 – so financial years ending 30 June 2022 will be the first to implement.

To assist with the transition to the new framework the Australian Accounting Standards Board has amended AASB 1053 *Application of Tiers of Australian Accounting Standards*. AASB 1053 outlines the steps for an entity to transfer to Tier 2 financial statements.

We have developed this guide to assist entities preparing Tier 2 (Simplified Disclosures) financial statements for the first time as at 30 June 2022. It provides guidance when a transitioning entity is and is not required to apply AASB 1 *First-time Adoption of Australian Accounting Standards*. The guide includes a number of illustrative examples on potential adjustments that would be required if an entity is not already complying with all recognition and measurement requirements in Australian Accounting Standards. We hope that the guide will assist you in working through your transition to Tier 2 financial statements.

This publication is based on KPMG's view of the guidance in AASB 1053 as at June 2022.

Not-for-profit, private sector entities will continue to follow the 'old' framework until the Australian Accounting Standards Board finalise a project which aims to adapt the new framework for not-for-profit entities. At present, we expect this in 2023. KPMG will issue an additional publication as this Australian Accounting Standards Board project is finalised.

Michael Voogt
Director – Department of Professional Practice

Key terms

The following terms have been used throughout this Guide:

AASB	Australian Accounting Standards Board
AAS	Australian Accounting Standards
AI	AASB Interpretation
ASIC	Australian Securities and Investments Commission
Corps Act	Corporations Act 2001
GPFS	General purpose financial statements
GPFS-Tier 2 RDR	'Old' GPFS-Tier 2 framework – Reduced Disclosure Requirements
GPFS-Tier 2 SD	'New' GPFS-Tier 2 framework – Simplified Disclosures
IASB Board	International Accounting Standards Board
IFRS Standards	International Financial Reporting Standards
IFRS for SMEs	IFRS for Small and Medium-sized Entities
NFP	Not-for-profit
R&M	Recognition and measurement
SPFS	Special purpose financial statements

AASB 1	AASB 1 First-time Adoption of Australian Accounting Standards
AASB 10	AASB 10 Consolidated Financial Statements
AASB 108	AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
AASB 1053	AASB 1053 Application of Tiers of Australian Accounting Standards
AASB 1060	AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

For a discussion of the differences between consolidated, separate and individual financial statements refer to *Insights into IFRS*, Chapter 2.1.

Contents

1. Introduction

1.1 Revised conceptual framework

The IASB Board issued a revised Conceptual Framework for Financial Reporting (RCF) in March 2018. In accordance with the Australian Financial Reporting Council strategic direction, the AASB is required to adopt the RCF in Australia.

To implement the RCF in Australia the AASB has had to work through a number of issues including addressing:

- the reporting entity concept clash between the RCF and (now) 'old' Australian requirements
- Australia's unique special purpose financial statements (SPFS) accounting requirements that allow entities to self-assess as 'non-reporting entities' and prepare free form SPFS.

The implementation process resulted in the AASB undertaking a number of projects which ultimately resulted in the 'resetting' of the Australian financial reporting framework – last done some 30 years ago.

1.2 New Australian private sector financial reporting framework

We now have a new framework for for-profit private sector entities that effectively brings an end to SPFS for a number of entities – that is the removal of the 'reporting entity framework' which has been in place for the last 30 odd years.

Appendix 1 provides a flow diagram of the Australian private sector financial reporting framework and what basis financial statements will now be required to be prepared, from annual periods beginning on or after 1 July 2021.

The 'old' framework focused on public accountability and reporting entity.

- If an entity has public accountability and is required by legislation to prepare financial statements in accordance with AAS or accounting standards, then it must prepare GPFS-Tier 1. This has not changed in the new framework.
- If an entity does not have public accountability, then we will no longer assess whether the entity is a reporting entity. This is the main area of change.

1.2.1 For-profit private sector entities

Under the new framework, if an entity is required by legislation to prepare financial statements that comply with either AAS or accounting standards they will now be required to prepare a form of GPFS.

This means that for-profit entities regulated by ASIC (for example, large proprietary companies, and small foreign-owned companies) who may be currently preparing SPFS will need to prepare and lodge a form of GPFS going forward.

For those entities not required by legislation to prepare financial statements in accordance with either AAS or accounting standards, the next focus will be on the requirements in their constituting document – for example, a constitution, trust deed, partnership agreement etc.

Where such document requires financial statements to be prepared in accordance with AAS, SPFS can no longer be prepared, if such document is created or amended on or after 1 July 2021.

If there is no legislation or constituting document that requires financial statements to prepared in accordance with AAS or accounting standards, then those charged with governance can:

- voluntarily elect to prepare GPFS – either Tier 1 or Tier 2, OR
- will need to consult all users on their collective needs in order to determine an appropriate basis of preparation (what is termed user defined financial statements).

1.2.2 Not-for-profit private sector entities

The not-for-profit, private sector entities will continue to follow the 'old' framework until the AASB finalise a project which aims to adapt the new framework to NFP entities. At present, we expect this in 2023. KPMG will issue an additional publication as this AASB project as the project is finalised.

A broader understanding and further details of the Australian Financial Reporting Framework project is available on our dedicated webpage at www.kpmg.com/au/gpfs.

1.3 GPFS-Tier 2 – Simplified Disclosures (SD) replaces Reduced Disclosure Requirements (RDR)

1.3.1 For-profit and Not-for-profit private sector entities

To implement the second phase of the new Australian Private Sector Financial Reporting Framework the AASB updated AASB 1053 and issued AASB 1060 in March 2020.

Both pronouncements are effective for financial years beginning on or after 1 July 2021, with early adoption permitted. Both standards need to be applied at the same time.

AASB 1053 requires preparers to assess whether the entity is publicly accountable to determine if it qualifies for the preparation of GPFS-Tier 2 under the differential reporting regime.

AASB 1060, replaces the current suite of RDR disclosures. AASB 1060 is a new single GPFS-Tier 2 SD standard. It is principally based on the disclosures included in the IFRS for SMEs Standard, with some adjustment for the Australian context. It will apply to all entities (both for-profit and not-for-profit) preparing financial statements under Tier 2, both those currently reporting under the existing RDR framework and those that will be required to stop preparing SPFS and be required to prepare GPFS.

AASB 1060 works in conjunction with AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* – the AAS that removed the ability of certain for-profit private sector entities to prepare SPFS.

2. Transition to GPFS-Tier 2 SD

2.1 Introduction

This section covers how to practically account for the various transition methods required by AASB 1053 – including the application of AASB 1 or AASB 108. The discussion focuses on transition for first time adoption for financial years beginning on or after 1 July 2021, for example, a 30 June 2022 financial year.

Where a client earlier adopts the new Australian financial reporting framework, for example a 30 June 2021 financial year, there is additional relief in relation to presentation of comparatives and date of transition. Please consult with your local KPMG contact if you are electing to early adopt.

The following examples are considered below.

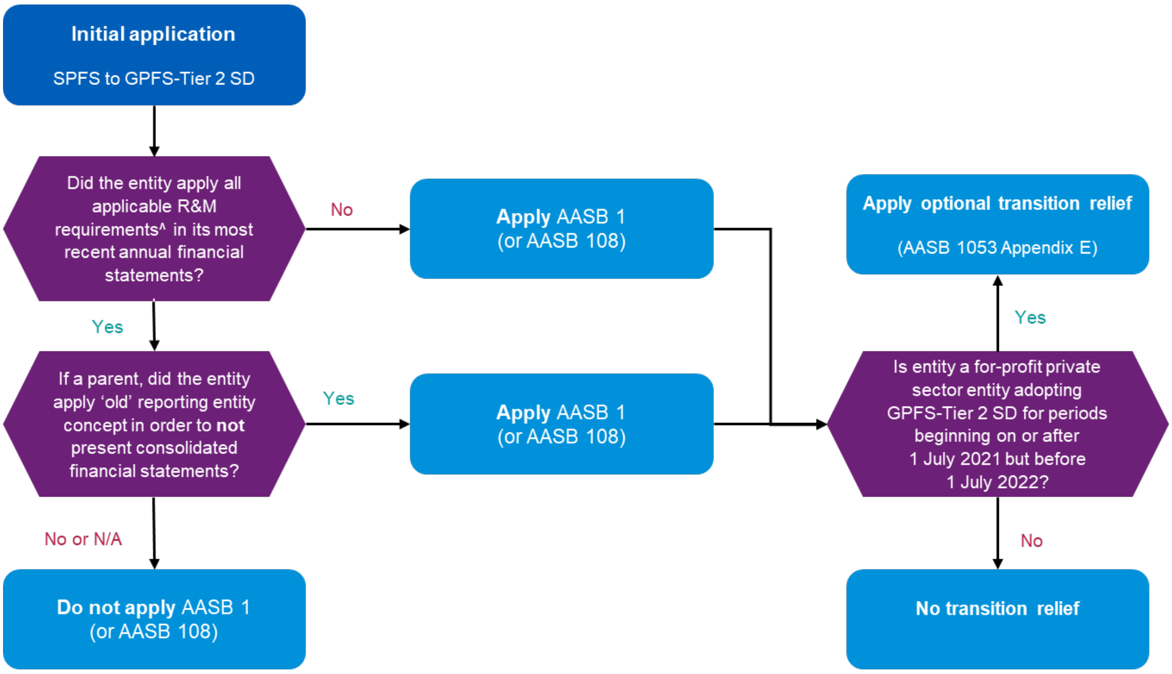
- 2.2 – Transition – SPFS to GPFS-Tier 2 SD (initial adoption)
- 2.3 – Transition – SPFS to GPFS-Tier 2 SD (re-application)
- 2.4 – Transition – GPFS-Tier 1 to GPFS-Tier 2 SD (first time or resuming)
- 2.5 – Transition – GPFS-Tier 2 RDR to GPFS-Tier2 SD

In subsequent sections we will discuss how to practically account for the various transition methods required by AASB 1053 – including the application of AASB 1 or AASB 108. In these sections the discussion will focus on transition for first time adoption for financial years beginning on or after 1 July 2021, for example, a 30 June 2022 financial year.

2.2 Transition – SPFS to GPFS-Tier 2 SD (initial adoption)

This section covers where an entity moves from SPFS for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022. In years prior to 30 June 2021 the entity has always appropriately prepared SPFS. It considers fact patterns where the entity which reports is a parent (as defined by AASB 10) and where it is not a parent.

AASB 1053.18A and Appendix 3 – Chart 1 outline the relevant guidance for the above scenario. The only additional piece of information that is required is whether the 30 June 2021 SPFS complied with all applicable R&M requirements (including consolidation and/or equity accounting).



^ includes consolidation and/or equity accounting (if applicable) if the entity is a parent which presents consolidated financial statements in accordance AASB 10 *Consolidated Financial Statements*

For ease of use we have detailed a number of example fact patterns to assist you in determining whether you will need to apply AASB 1 (or AASB 108) on transition to GPFS-Tier 2 SD for the first-time adoption for financial years beginning on or after 1 July 2021, for example, a 30 June 2022 financial year. The examples include the following:

2.2.1	Not a parent, applied all applicable R&M requirements
2.2.2	Not a parent, did not apply all applicable R&M requirements
2.2.3	Parent, did not apply all applicable R&M requirements (ignoring consolidation and equity accounting)
2.2.4	Parent, prior year and current year – parent only financial statements (consolidation exemption)
2.2.5	Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements
2.2.6	Parent, prior year and current year – parent only financial statements
2.2.7	Parent, prior year parent only financial statements and current year consolidated financial statements
2.2.8	Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements
2.2.9	Parent, prior year and current year consolidated financial statements
2.2.10	Parent, prior year consolidated financial statements and current year parent only financial statements

2.2.1 Not a parent, applied all applicable R&M requirements

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared SPFS – **entity only** (individual) financial statements – because entity was appropriately assessed as a non-reporting entity SPFS **complied with all** applicable R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **entity only** (individual financial statements)
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.2.2 Not a parent, did not apply all applicable R&M requirements

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared SPFS – **entity only** (individual) financial statements – because entity was appropriately assessed as a non-reporting entity SPFS **did not complied with all** applicable R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **entity only** (individual financial statements)
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

In addition, AASB 1060 will require specific disclosures around the transition from SPFS to GPFS-Tier 2 depending on which transition choice is made by the company:

- where AASB 1 method is chosen the disclosure requirements in AASB 1060 paragraphs 206 – 213 are required.
- where AASB 108 method is chosen the disclosure requirements in AASB 1060 paragraphs 106 – 110 are required.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (below) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.2.3 Parent, did not apply all applicable R&M requirements (ignoring consolidation and/or equity accounting)

The focus of this example is on R&M requirements other than consolidation and/or equity accounting. Whether the client prepares consolidated financial statements or not is not relevant for this example – we are just considering whether they have not applied all applicable other R&M requirements.

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared SPFS – **consolidated or parent only** (separate) financial statements – as the parent and group entities were appropriately assessed as a non-reporting entities SPFS **did not comply with all** applicable R&M requirements (ignoring consolidation and/or equity accounting requirements) For this example, it does not matter whether the client would be required to prepare consolidated financial statements or not (under AAS) – this requirement is considered in the following examples
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **consolidated or parent only** (separate) financial statements
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

In addition, AASB 1060 will require specific disclosures around the transition from SPFS to GPFS-Tier 2 depending on which transition choice is made by the company:
- where AASB 1 method is chosen the disclosure requirements in AASB 1060 paragraphs 206 – 213 are required.
- where AASB 108 method is chosen the disclosure requirements in AASB 1060 paragraphs 106 – 110 are required.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (below) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.2.4 Parent, prior year and current year – parent only financial statements (consolidation exemption)

Client facts and circumstances and application of AAB 1		
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements	
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply consolidation exemption in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'	
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements	
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.2.5 Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements

Client facts and circumstances and application of AAB 1		
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements	
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **consolidated** financial statements Entity **elected not to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'	
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1	
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

In addition, AASB 1060 will require specific disclosures around the transition from SPFS to GPFS-Tier 2 depending on which transition choice is made by the company:

- where AASB 1 method is chosen the disclosure requirements in AASB 1060 paragraphs 206 – 213 are required.
- where AASB 108 method is chosen the disclosure requirements in AASB 1060 paragraphs 106 – 110 are required.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (below) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.2.6 Parent, prior year and current year – parent only financial statements

Client facts and circumstances and application of AAB 1		
Prior year (30 June 2021)		Prepared SPFS – **parent only** (separate) financial statements Consolidated financial statements not prepared as **either**: • parent and group entities appropriately assessed as **non-reporting entities**, or • entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements
Current year (30 June 2022)		Transitioning to GPFS-Tier 2 SD Elected to prepare **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?		**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.2.7 Parent, prior year parent only financial statements and current year consolidated financial statements

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements Consolidated financial statements not prepared as either: • parent and group entities appropriately assessed as **non-reporting entities**, or • entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **consolidated** financial statements Entity **elected not to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1
Notes	# For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

In addition, AASB 1060 will require specific disclosures around the transition from SPFS to GPFS-Tier 2 depending on which transition choice is made by the company:

- where AASB 1 method is chosen the disclosure requirements in AASB 1060 paragraphs 206 – 213 are required.
- where AASB 108 method is chosen the disclosure requirements in AASB 1060 paragraphs 106 – 110 are required.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (below) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.2.8 Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements Consolidated financial statements not prepared as parent and group entities appropriately assessed as **non-reporting entities** SPFS **complied with all** applicable other R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **consolidated** financial statements Entity **cannot elect to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 as the requirements in AASB 10 are not present – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

In addition, AASB 1060 will require specific disclosures around the transition from SPFS to GPFS-Tier 2 depending on which transition choice is made by the company:

- where AASB 1 method is chosen the disclosure requirements in AASB 1060 paragraphs 206 – 213 are required.
- where AASB 108 method is chosen the disclosure requirements in AASB 1060 paragraphs 106 – 110 are required.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (below) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.2.9 Parent, prior year and current year consolidated financial statements

Client facts and circumstances and application of AAB 1		
Prior year (30 June 2021)	Prepared SPFS – **consolidated** financial statements Entity either: • **cannot elect to apply the consolidation exemption** in AASB 10.4(a)# as the requirements in AASB 10 are not present, **or** • **elected not to apply the consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements	
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required or elected to prepare **consolidated** financial statements Entity either: • **cannot elect to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 as the requirements in AASB 10 are not present, **or** • **elected not to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'	
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements	
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.2.10 Parent, prior year consolidated financial statements and current year parent only financial statements

<table>
<tr><th colspan="3">Client facts and circumstances and application of AAB 1</th></tr>
<tr><td>Prior year (30 June 2021)</td><td colspan="2">Prepared SPFS – consolidated financial statements

Entity elected not to apply the consolidation exemption in AASB 10.4(a)[#] – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'

SPFS complied with all applicable other R&M requirements</td></tr>
<tr><td>Current year (30 June 2022)</td><td colspan="2">Transitioning to GPFS-Tier 2 SD

Elected to prepare parent only (separate) financial statements – because utilised consolidation exemption

Consolidated financial statements not required as entity able to appropriately apply consolidation exemption in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (below) for further discussion on 'consolidation exemptions'</td></tr>
<tr><td>Apply AASB 1 (or AASB 108)?</td><td colspan="2">Yes, need to apply AASB 1 (or AASB 108)

Refer to section 3 for guidance on the application of AASB 1</td></tr>
<tr><td>Notes</td><td>#</td><td>For this fact pattern this entity did not qualify to apply the AASB 10.Aus4.1 consolidation exemption.

To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.</td></tr>
</table>

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

In addition, AASB 1060 will require specific disclosures around the transition from SPFS to GPFS-Tier 2 depending on which transition choice is made by the company:

- where AASB 1 method is chosen the disclosure requirements in AASB 1060 paragraphs 206 – 213 are required.
- where AASB 108 method is chosen the disclosure requirements in AASB 1060 paragraphs 106 – 110 are required.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (below) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.2.11 Consolidation exemptions

Where an entity is a parent it is required to prepare consolidated financial statements unless it qualifies for an exemption under AASB 10.4(a) or Aus4.1.

Prior to the adoption of the amendments for the new Australian financial reporting framework – under the reporting entity concept – an entity could also not prepare consolidated financial statements if the parent and group entities were appropriately assessed as non-reporting entities. In this case the parent entity would present separate financial statements.

Summary of AASB 10.4(a)

Under AASB 10 paragraph 4(a) a parent is **not** required to present consolidated financial statements if **all** of the following apply:

(i) The parent is a wholly-owned or partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.
(ii) The parent does not have any debt or equity instruments traded in a public market.
(iii) The parent does not file, nor is it in the process of filing, its financial statements with a market regulator (for example, the Australian Stock Exchange) for the purposes of issuing any class of instruments in a public market.
(iv) The parent's ultimate or intermediate parent produces financial statements that are available for public use, comply with IFRS Standards and include the parent.

Summary of AASB 10.Aus4.1

Under AASB 10 paragraph Aus4.1 a parent is **not** required to present consolidated financial statements if **all** of the following apply:

(i) The parent is a wholly-owned or partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.
(ii) The parent does not have any debt or equity instruments traded in a public market.
(iii) The parent does not file, nor is it in the process of filing, its financial statements with a market regulator (for example, the Australian Stock Exchange) for the purposes of issuing any class of instruments in a public market.
(iv) The parent's ultimate or intermediate parent produces financial statements that are available for public use, comply with GPFS-Tier 2 and include the parent
(v) The parent produces financial statements that comply with GPFS-Tier 2.

When AASB 10.Aus4.1 consolidation exemption does not apply

The AASB 10.Aus4.1 consolidation exemption does not apply where the parent has prepared SPFS.

To be in a position to utilise this consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

2.2.12 Transition relief

AASB 1053 provides transitional relief when first adopting AASB 1060 (GPFS-Tier 2 SD reporting requirements). The relief available under AASB 1053 Appendix E depends on whether the entity chooses to apply the requirements early to periods beginning before 1 July 2021 (for example, 30 June 2020 and 30 June 2021 financial year ends), **or** only from the mandatory effective date for periods beginning before 1 July 2022 (for example, applying first time in 30 June 2022 financial year end).

Adopting periods beginning before 1 July 2022 – Correction of errors

For entities moving from SPFS and applying GPFS-Tier 2 SD reporting requirements for the first time there is no requirement to distinguish between the correction of errors and changes in accounting policies if the entity becomes aware of errors made in its most recent previous SPFS.

This means that an entity that discovered an error in its previous SPFS does not need to separately address this in its first GPFS-Tier 2 SD financial statements and is able to apply the transitional relief in AASB 1 or elect to apply AASB 108 (i.e., fully retrospectively).

An entity does not need to apply the correction or error transitional relief – in which case it will apply a fully retrospective transition in accordance with AASB 108.

Adopting periods beginning before 1 July 2021

For those entities that transitioned to GPFS-Tier 2 SD for periods beginning before 1 July 2021 – for example 30 June 2021 or 30 June 2020 – in addition to the correction of errors relief discussed above could have also utilised:

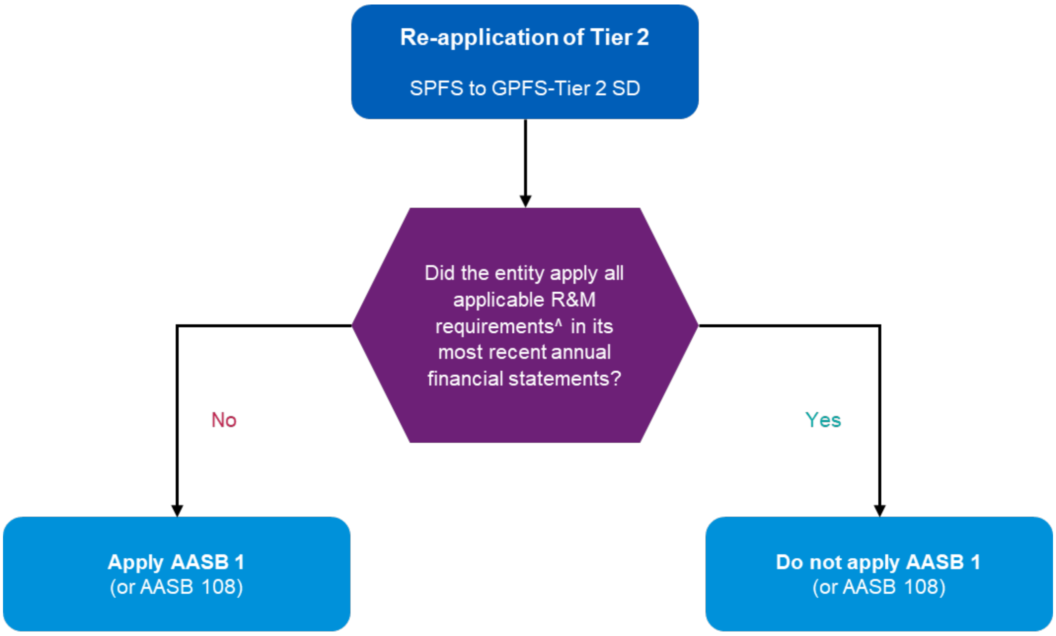
- relief for providing comparative information not previously disclosed in the notes
- relief for restating comparative information.

Refer to AASB 1053.Appendix E for further details on this optional relief.

2.3 Transition – SPFS to GPFS-Tier2 SD (re-application)

This section covers where an entity moves from SPFS for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022 – however for years ending 30 June 2020 or prior the entity prepared a set of GPFS (either Tier 1 or Tier 2 RDR which complied with all the relevant AAS).

AASB 1053.19B and Appendix 3 – Chart 3 outlines the relevant guidance for the above scenario. The only additional piece of information that is required is whether the 30 June 2021 SPFS complied with all applicable R&M requirements (including consolidation and/or equity accounting).



^ includes consolidation and/or equity accounting (if applicable) if the entity is a parent which presents consolidated financial statements in accordance AASB 10 *Consolidated Financial Statements*

For ease of use we have detailed a number of example fact patterns to assist you in determining whether you will need to apply AASB 1 (or AASB 108) on transition to GPFS-Tier 2 SD for financial years beginning on or after 1 July 2021, for example, a 30 June 2022 financial year. The examples include the following:

2.3.1	Not a parent, applied all applicable R&M requirements
2.3.2	Not a parent, did not apply all applicable R&M requirements
2.3.3	Parent, did not apply all applicable R&M requirements (ignoring consolidation and equity accounting)
2.3.4	Parent, prior year and current year – parent only financial statements (consolidation exemption)
2.3.5	Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements
2.3.6	Parent, prior year and current year – parent only financial statements
2.3.7	Parent, prior year parent only financial statements and current year consolidated financial statements
2.3.8	Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements
2.3.9	Parent, prior year and current year consolidated financial statements
2.3.10	Parent, prior year consolidated financial statements and current year parent only financial statements

2.3.1 Not a parent, applied all applicable R&M requirements

Client facts and circumstances and application of AAB 1	
Two years ago (30 June 2020)	Elected to prepare GPFS-Tier 2 RDR – **entity only** (individual) financial statements – even though entity was appropriately assessed as a non-reporting entity
Prior year (30 June 2021)	Prepared SPFS – **entity only** (individual) financial statements – because entity was appropriately assessed as a non-reporting entity SPFS **complied with all** applicable R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **entity only** (individual financial statements)
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.3.2 Not a parent, did not apply all applicable R&M requirements

Client facts and circumstances and application of AAB 1	
Two years ago (30 June 2020)	Elected to prepare GPFS-Tier 2 RDR – **entity only** (individual) financial statements – even though entity was appropriately assessed as a non-reporting entity
Prior year (30 June 2021)	Prepared SPFS – **entity only** (individual) financial statements – because entity was appropriately assessed as a non-reporting entity SPFS **did not complied with all** applicable R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **entity only** (individual financial statements)
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (above) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.3.3 Parent, did not apply all applicable R&M requirements (ignoring consolidation and/or equity accounting)

The focus of this example is on R&M requirements other than consolidation and/or equity accounting. Whether the client prepares consolidated financial statements or not is not relevant for this example – we are just considering whether they have not applied all applicable other R&M requirements.

Client facts and circumstances and application of AAB 1	
Two years ago (30 June 2020)	Prepared GPFS-Tier 2 RDR – **consolidated or parent only** (separate) financial statements – even though the parent and group entities were appropriately assessed as a non-reporting entities
Prior year (30 June 2021)	Prepared SPFS – **consolidated or parent only** (separate) financial statements – as the parent and group entities were appropriately assessed as a non-reporting entities SPFS **did not comply with all** applicable R&M requirements (ignoring consolidation and/or equity accounting requirements) For this example, it does not matter whether the client would be required to prepare consolidated financial statements or not (under AAS) – this requirement is considered in the following examples
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **consolidated or parent only** (separate) financial statements
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (above) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.3.4 Parent, prior year and current year – parent only financial statements (consolidation exemption)

Client facts and circumstances and application of AAB 1		
Two years ago (30 June 2020)	Prepared GPFS-Tier 2 RDR – **parent only** (separate) financial statements – because utilised consolidation exemption	
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements	
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply consolidation exemption in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'	
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements	
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.3.5 Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements

Client facts and circumstances and application of AAB 1		
Two years ago (30 June 2020)	Prepared GPFS-Tier 2 RDR – **parent only** (separate) financial statements – because utilised consolidation exemption	
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements	
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **consolidated** financial statements Entity **elected not to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'	
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1	
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (above) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.3.6 Parent, prior year and current year – parent only financial statements

Client facts and circumstances and application of AAB 1	
Two years ago (30 June 2020)	Prepared GPFS-Tier 2 RDR – **parent only** (separate) financial statements – because utilised consolidation exemption <u>or</u> parent and group entities appropriately assessed as non-reporting entities
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements Consolidated financial statements not prepared as **either**: • parent and group entities appropriately assessed as **non-reporting entities**, or • entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable <u>other</u> R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements
Notes	# For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.3.7 Parent, prior year parent only financial statements and current year consolidated financial statements

<table>
<tr><th colspan="3">Client facts and circumstances and application of AAB 1</th></tr>
<tr><td>Two years ago (30 June 2020)</td><td colspan="2">Prepared GPFS-Tier 2 RDR – parent only (separate) financial statements – because utilised consolidation exemption <u>or</u> parent and group entities appropriately assessed as non-reporting entities</td></tr>
<tr><td>Prior year (30 June 2021)</td><td colspan="2">Prepared SPFS – parent only (separate) financial statements

Consolidated financial statements not prepared as either:
parent and group entities appropriately assessed as non-reporting entities, or
entity able to appropriately apply consolidation exemption in AASB 10.4(a)# – refer to <u>2.2.11</u> (above) for further discussion on 'consolidation exemptions'
SPFS complied with all applicable <u>other</u> R&M requirements</td></tr>
<tr><td>Current year (30 June 2022)</td><td colspan="2">Transitioning to GPFS-Tier 2 SD

Elected to prepare consolidated financial statements

Entity elected not to apply the consolidation exemption in AASB 10.4(a) or Aus4.1 – refer to <u>2.2.11</u> (above) for further discussion on 'consolidation exemptions'</td></tr>
<tr><td>Apply AASB 1 (or AASB 108)?</td><td colspan="2">Yes, need to apply AASB 1 (or AASB 108)

Refer to <u>section 3</u> for guidance on the application of AASB 1</td></tr>
<tr><td>Notes</td><td>#</td><td>For this fact pattern this entity did not qualify to apply the AASB 10.Aus4.1 consolidation exemption.

To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.</td></tr>
</table>

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (above) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.3.8 Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements

Client facts and circumstances and application of AAB 1	
Two years ago (30 June 2020)	Prepared GPFS-Tier 2 RDR – **parent only** (separate) financial statements – because parent and group entities appropriately assessed as non-reporting entities
Prior year (30 June 2021)	Prepared SPFS – **parent only** (separate) financial statements Consolidated financial statements not prepared as parent and group entities appropriately assessed as **non-reporting entities** SPFS **complied with all** applicable other R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **consolidated** financial statements Entity **cannot elect to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 as the requirements in AASB 10 are not present – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (above) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.3.9 Parent, prior year and current year consolidated financial statements

Client facts and circumstances and application of AAB 1		
Two years ago (30 June 2020)	Prepared GPFS-Tier 2 RDR – **consolidated** financial statements – because cannot apply or elected not to apply consolidation exemption	
Prior year (30 June 2021)	Prepared SPFS – **consolidated** financial statements Entity either: • **cannot elect to apply the consolidation exemption** in AASB 10.4(a)# as the requirements in AASB 10 are not present, **or** • **elected not to apply the consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements	
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required or elected to prepare **consolidated** financial statements Entity either: • **cannot elect to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 as the requirements in AASB 10 are not present, **or** • **elected not to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'	
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements	
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.3.10 Parent, prior year consolidated financial statements and current year parent only financial statements

Client facts and circumstances and application of AAB 1		
Two years ago (30 June 2020)	Prepared GPFS-Tier 2 RDR – **consolidated** financial statements – because elected not to apply consolidation exemption	
Prior year (30 June 2021)	Prepared SPFS – **consolidated** financial statements Entity **elected not to apply the consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' SPFS **complied with all** applicable other R&M requirements	
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'	
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1	
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

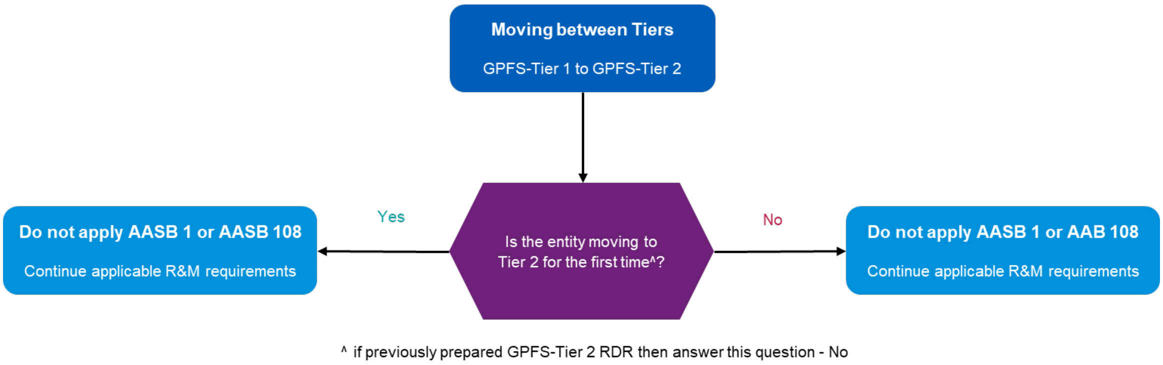
AASB 1053 provides some optional short-term exemptions for for-profit private sector entities when transitioning to GPFS-Tier 2 SD – i.e., applying AASB 1060 for the first time. Refer to 2.2.12 (above) for further discussion on 'transition relief'.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

2.4 Transition – GPFS-Tier 1 to GPFS-Tier 2 SD (first time or resuming)

This section covers where an entity moves from GPFS-Tier 1 for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022. In years prior to 30 June 2021 the entity has either prepared GPFS-Tier 1 or GPFS-Tier 2 (RDR).

AASB 1053.23 and Appendix 3 – Chart 4 outlines the relevant guidance for the above scenario.



While applying GPFS-Tier 1 all R&M requirements will have been complied with – as such if an entity transitions from GPFS-Tier 1 to GPFS-Tier 2 SD, neither AASB 1 nor AASB 108 need to be applied as there will not be any R&M adjustments.

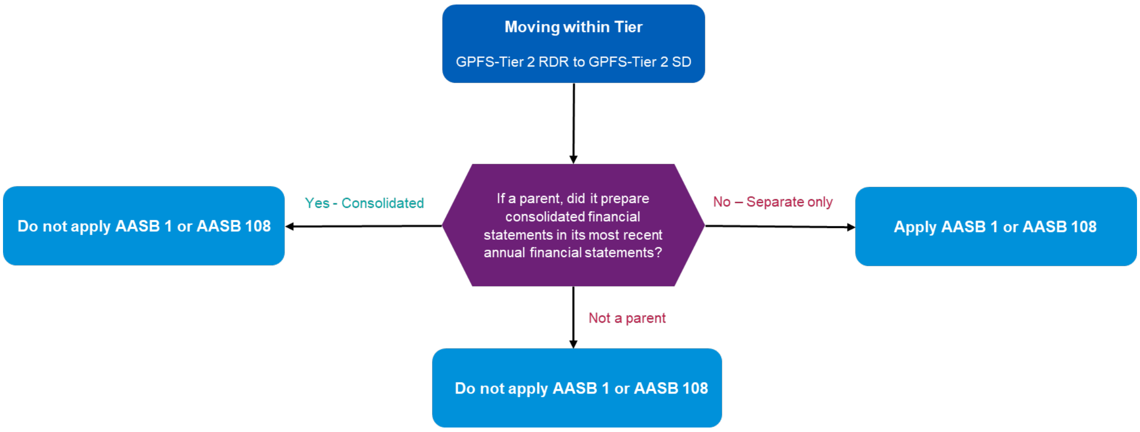
What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.5 Transition – GPFS-Tier 2 RDR to GPFS-Tier 2 SD

This section covers where an entity moves from GPFS-Tier 2 RDR for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022.

AASB 1053.20A outlines the relevant guidance for the above scenario.



For ease of use we have detailed a number of example fact patterns to assist you in determining whether you will need to apply AASB 1 (or AASB 108) on transition to GPFS-Tier 2 SD for financial years beginning on or after 1 July 2021, for example, a 30 June 2022 financial year. The examples include the following:

2.5.1	Not a parent, applied all applicable R&M requirements
2.5.2	Parent, prior year and current year – parent only financial statements (consolidation exemption)
2.5.3	Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements
2.5.4	Parent, prior year and current year consolidated financial statements
2.5.5	Parent, prior year consolidated financial statements and current year parent only financial statements

2.5.1 Not a parent, applied all applicable R&M requirements

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared GPFS-Tier 2 RDR – **entity only** (individual) financial statements Entity may or may not be a reporting entity, if non-reporting entity then elected to prepare GPFS-Tier 2 RDR SPFS **complied with all** applicable R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Required to prepare **entity only** (individual financial statements)
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

2.5.2 Parent, prior year and current year – parent only financial statements (consolidation exemption)

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared GPFS-Tier 2 RDR – **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' Entity may or may not be a reporting entity, if non-reporting entity then elected to prepare GPFS-Tier 2 RDR SPFS **complied with all** applicable other R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply consolidation exemption in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?	**No**, do not apply AASB 1 (or AASB 108) That is, the entity continues to apply applicable R&M requirements
Notes	# For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

The above equally applies for both for-profit and not-for-profit entities moving from GPFS-Tier 2 RDR to GPFS-Tier 2 SD for the first time.

2.5.3 Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements

Client facts and circumstances and application of AAB 1		
Prior year (30 June 2021)		Prepared GPFS-Tier 2 RDR – **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' Entity may or may not be a reporting entity, if non-reporting entity then elected to prepare GPFS-Tier 2 RDR SPFS **complied with all** applicable other R&M requirements
Current year (30 June 2022)		Transitioning to GPFS-Tier 2 SD Elected to prepare **consolidated** financial statements Entity **elected not to apply the consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?		**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1
Notes	#	For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

The above equally applies for both for-profit and not-for-profit entities moving from GPFS-Tier 2 RDR to GPFS-Tier 2 SD for the first time.

2.5.4 Parent, prior year and current year consolidated financial statements

<table>
<tr><th colspan="3">Client facts and circumstances and application of AAB 1</th></tr>
<tr><td>Prior year
(30 June 2021)</td><td colspan="2">Prepared GPFS-Tier 2 RDR – consolidated financial statements

Entity either:
• cannot elect to apply the consolidation exemption in AASB 10.4(a)# as the requirements in AASB 10 are not present, or
• elected not to apply the consolidation exemption in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on ‘consolidation exemptions’

Entity may or may not be a reporting entity, if non-reporting entity then elected to prepare GPFS-Tier 2 RDR

SPFS complied with all applicable <u>other</u> R&M requirements</td></tr>
<tr><td>Current year
(30 June 2022)</td><td colspan="2">Transitioning to GPFS-Tier 2 SD

Required or elected to prepare consolidated financial statements

Entity either:
• cannot elect to apply the consolidation exemption in AASB 10.4(a) or Aus4.1 as the requirements in AASB 10 are not present, or
• elected not to apply the consolidation exemption in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on ‘consolidation exemptions’</td></tr>
<tr><td>Apply AASB 1
(or AASB 108)?</td><td colspan="2">No, do not apply AASB 1 (or AASB 108)

That is, the entity continues to apply applicable R&M requirements</td></tr>
<tr><td>Notes</td><td>#</td><td>For this fact pattern this entity did not qualify to apply the AASB 10.Aus4.1 consolidation exemption.

To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.</td></tr>
</table>

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060. Refer to KPMG’s publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation disclosures.

The above equally applies for both for-profit and not-for-profit entities moving from GPFS-Tier 2 RDR to GPFS-Tier 2 SD for the first time.

2.5.5 Parent, prior year consolidated financial statements and current year parent only financial statements

Client facts and circumstances and application of AAB 1	
Prior year (30 June 2021)	Prepared GPFS-Tier 2 RDR – **consolidated** financial statements Entity **elected not to apply the consolidation exemption** in AASB 10.4(a)# – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions' Entity may or may not be a reporting entity, if non-reporting entity then elected to prepare GPFS-Tier 2 RDR SPFS **complied with all** applicable other R&M requirements
Current year (30 June 2022)	Transitioning to GPFS-Tier 2 SD Elected to prepare **parent only** (separate) financial statements – because utilised consolidation exemption Consolidated financial statements not required as entity able to appropriately apply **consolidation exemption** in AASB 10.4(a) or Aus4.1 – refer to 2.2.11 (above) for further discussion on 'consolidation exemptions'
Apply AASB 1 (or AASB 108)?	**Yes**, need to apply AASB 1 (or AASB 108) Refer to section 3 for guidance on the application of AASB 1
Notes	# For this fact pattern this entity **did not qualify** to apply the AASB 10.Aus4.1 consolidation exemption. To be in a position to utilise the Aus4.1 consolidation exemption both the parent and its ultimate or intermediate parent need to have prepared GPFS-Tier 2 – as required by AASB 10.Aus4.1(a)(ii). If the parent presents SPFS (for say the year ended 30 June 2021) then it will not have met this condition.

The disclosures in the first GPFS-Tier 2 SD financial statements – will need to align to AASB 1060. Refer to KPMG's publications – *Example Simplified Disclosures – Guide to annual reports* and *Annual Disclosure Checklist – Simplified Disclosure Requirements* for further detail.

Refer to section 5 for discussion on basis of preparation and transition disclosures.

The above equally applies for both for-profit and not-for-profit entities moving from GPFS-Tier 2 RDR to GPFS-Tier 2 SD for the first time.

2.6 Other issues

2.6.1 Technical issue

Assume the following:

- The most recent prior year annual financial statements were prepared as either GPFS-Tier 2 RDR or SPFS. These financial statements applied all applicable R&M requirements.
- The prior year financial statements prepared may have been separate financial statements (utilising the consolidation exemption) or consolidated financial statements.
- In the current year the entity prepares GPFS-Tier 2 SD financial statements as either separate financial statements (utilising the consolidation exemption) or consolidated financial statements.

Based on the assumptions above, the technical issue relates to the following mix of separate and consolidated financial statements:

- Prior year prepared **separate** financial statements (either GPFS-Tier 2 RDR or SPFS) and in the current year prepared **consolidated** financial statements (GPFS-Tier 2 SD).
- Prior year prepared **consolidated** financial statements (either GPFS-Tier 2 RDR or SPFS) and in the current year prepared **separate** financial statements (GPFS-Tier 2 SD).

In the above situations, KPMG has published a view (see below) that, AASB 1 needs to be applied – as in the current year it is the **first time** that either separate or consolidated financial statements are prepared adopting AAS. The relevant reference is AASB 1 paragraphs 3 and 4.

KPMG has published guidance in *Insights into IFRS* (6.1.80.10):

> *An entity is a first-time adopter in relation to a set of financial statements – for example, each of its separate and individual or consolidated financial statements – rather than in relation to the entity. Therefore, it is possible for an entity, through its different reporting entities, to be a first-time adopter more than once over a number of years, in respect of each set of financial statements that it prepares.*
>
> *For example, an entity that prepares separate and consolidated financial statements can be a first-time adopter in its consolidated financial statements in one year and a few years later a first-time adopter in its separate financial statements.*

In addition, the AASB has amended AASB 1053 to provide further guidance on one of the above fact patterns. This guidance requires the application of AASB 1. It is KPMG's view that the amendment in AASB 1053.20A is not needed – as there is existing guidance already which requires the application of AASB 1 to the above fact pattern.

2.6.2 AASB 1053 guidance on other transitions

AASB 1053 includes guidance for the following types of scenarios.

First-time adoption of Tier 1 reporting requirements:

- Entity moves from SPFS to GPFS-Tier 1 for the first time, the entity applies AASB 1. [AASB 1053 Appendix C – Chart 1]
- Entity moves from GPFS-Tier 2 to GPFS-Tier 1 for the first time, the entity applied AASB 1. [AASB 1053 Appendix C – Chart 4]

Re-application of Tier 1 reporting requirements:

- Entity moves from SPFS to GPFS-Tier 1 for a subsequent time^, the entity applies AASB 1. [AASB 1053 Appendix C – Chart 2]
- Entity moves from GPFS-Tier 2 to GPFS-Tier 1 for a subsequent time^, the entity applies AASB 1. [AASB 1053 Appendix C – Charts 2 and 4]

Re-application of Tier 2 reporting requirements:

- Entity moves from GPFS-Tier 1 to GPFS-Tier 2 for a subsequent time^, the entity does not apply AASB 1. [AASB 1053 Appendix C – Chart 4]

^ Where an entity has prepared a different sequence of financial statements in the past, for example, GPFS then SPFS, and is returning to GPFS.

3. AASB 1 transition guidance

3.1 Background

As detailed in the previous section, AASB 1053 requires entities to apply either AASB 1 or AASB 108 (a free choice) in a number of situations where an entity first applies GPFS-Tier 2 SD. This section works through a requirement to apply AASB 1 when transitioning to GPFS-Tier 2 SD.

In our view most entities will elect to apply the requirements of AASB 1 given a number of exemptions and 'short-cuts' that are provided in AASB 1. AASB 108 requires a fully retrospective approach. For example, where a previously unconsolidated subsidiary was acquired 10 years ago, AASB 108 would require the completion of a detailed purchase price allocation process to be conducted based on information that was known at the acquisition date (10 years ago). AASB 1 provides a short-cut method which is much easier to apply in practice. AASB 108 requirements are briefly discussed in the next section.

KPMG's *Insights into IFRS* Chapter 6.1 contains our detailed guidance on the application of IFRS 1 *First-time Adoption of IFRS Standards*. AASB 1 is the Australian equivalent to IFRS 1. Insights is a useful resource for transition adjustments not discussed in this section.

AASB 1 uses a number of key terms which are useful to understand when working through the transition process:

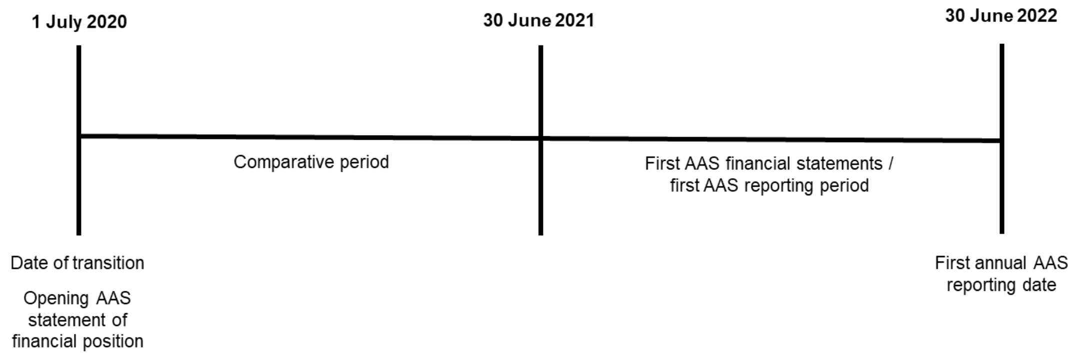
- The 'date of transition' is the beginning of the earliest period for which an entity presents full comparative information under AAS in its first AAS financial statements.
- An entity's 'first AAS financial statements' are the first annual financial statements in which the entity adopts AAS (i.e., GPFS-Tier 2 SD) and in which it makes an explicit and unreserved statement of compliance with AAS.
- The 'first AAS reporting period' is the latest reporting period covered by an entity's first AAS financial statements.
- A 'first-time adopter' is an entity that presents its first AAS financial statements, except for an entity that re-adopts AAS and chooses to apply them retrospectively.
- The 'opening AAS statement of financial position' is an entity's statement of financial position at the date of transition.

Example 1: Key terms on first-time adoption

Company T will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, that is for the prior financial year (30 June 2021) Company T prepared SPFS.

Company T will present 30 June 2022 financial statements with one year of comparative information. As such the date of transition is that start of the comparative year, i.e., 1 July 2020.

The following diagram illustrates the key dates and periods for the year Company T transitions:



The following terms relate to other aspects of the adoption of AASB 1:

- 'Deemed cost' is an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the first-time adopter had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
- 'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- 'Previous GAAP' is the basis of accounting that a first-time adopter used immediately before adopting AAS – for example, those who prepared SPFS.

3.2 AASB 1 basics

AASB 1 contains all of the transitional recognition, measurement, presentation and disclosure requirements applicable for a first-time adopter preparing its first annual and interim financial statements in accordance with AAS. Such an entity does not apply the transitional requirements of individual standards or interpretations unless specifically required to do so.

Entities transitioning to GPFS-Tier 2 SD for the first time may have to apply AASB 1 as detailed in AASB 1053 and discussed above. For the remainder of this section, we will focus on an entity which transitions from SPFS to GPFS-Tier 2 SD. The AASB 1 techniques can be equally applied when transitioning from other starting points (where AASB 1053 requires the application of AASB 1).

3.2.1 Steps for entities transitioning to GPFS-Tier 2 SD

The starting point for an entity's adoption of AAS is the creation of a statement of financial position at the entity's date of transition, which broadly involves:

- Obtaining an understanding of the prior years SPFS basis of preparation in respect to the R&M principles used and whether they complied with AAS. For most entities this should be the case with the exception of consolidation and/or equity accounting requirements (where the entity is a parent).
- If the entity **has complied** with all R&M requirements including consolidation and/or equity accounting requirements (where the entity is a parent) then the entity is **not required** to make any adjustments to its previously reported SPFS financial position (i.e., the date of transition statement of financial position will not change from that previously reported). The entity may still wish to consider the optional exemptions discussed below.
- If the entity has **not complied** with all R&M requirements including consolidation and/or equity accounting requirements (where the entity is a parent) then the entity **is required** to make adjustments to its previously reported SPFS financial position (i.e., the date of transition statement of financial position will change from that previously reported).
- The entity should consider the applicability of the mandatory exceptions and optional exemptions contained in AASB 1. These are discussed below.

Any R&M adjustments on transition to GPFS-Tier 2 SD would be recognised in opening retained earnings on the date of transition.

The impact of the application of AASB 1 will need to be disclosed in the current year GPFS-Tier 2 SD financial statements – refer discussion below.

Once the AAS date of transition statement of financial position is determined then the entity continues to apply the GPFS-Tier 2 SD R&M requirements. This may require adjustment to the previous reported comparative numbers – being financial performance and cash flows in the comparative year and financial position as at the end of the comparative year.

3.2.2 Consider mandatory exceptions and optional exemptions

AASB 1 includes numerous mandatory exceptions and optional exemptions from the requirements of the standards and interpretations that apply to existing users of AAS. In general, their purpose is to ensure that the cost incurred by an entity in preparing its first AAS financial statements does not exceed the benefits thereof. These exceptions and exemptions cannot be applied by analogy to any other items.

In our experience the vast majority of entities transitioning from SPFS (where the entity has applied all R&M requirements of AAS) to GPFS-Tier 2 SD will not need to apply any of the mandatory exceptions or optional exemptions. However, there may be unique fact patterns where an entity elects to apply one or more of the items listed below.

Mandatory exceptions

Entities may elect to use one or more of the voluntary exemptions from the general requirement for retrospective application of AAS. Some of these need to be applied to classes of items or transactions; others may be elected on an item-by-item basis. These elections may not be applied to other items by analogy.

The following table summarises the optional exemptions available to a first-time adopter. The *Insights into IFRS* references contain further discussion on each item listed.

Mandatory exceptions	Exception applies to	Insights reference
Estimates	All estimates in the opening statement of financial position and comparative period under AAS.	6.1.180
Classification and measurement of financial instruments	Classification of financial assets and retrospective application of the effective interest method.	6.1.570 & .580
Derecognition of financial instruments	Financial assets and financial liabilities derecognised or not derecognised under previous GAAP before the date of transition.	6.1.640
Embedded derivatives	All hybrid contracts whose host is not a financial asset in the scope of AASB 9.	6.1.650
Government loans	Existing below-market interest rate government loans at the date of transition.	6.1.680
Impairment of financial instruments	All financial instruments subject to impairment requirements of AASB 9.	6.1.690
Hedge accounting	Hedging relationships accounted for as hedges under previous GAAP that still exist at the date of transition.	6.1.700
Non-controlling interests (NCI)	All subsidiaries.	6.1.1120
Assets and liabilities of subsidiaries, associates and joint ventures	Parent/investor that adopts IFRS Standards after a subsidiary, associate or joint venture.	6.1.1240
Assets and liabilities of a parent	The separate and consolidated financial statements of all parent entities.	6.1.1230
Investment entities	The financial statements of a qualifying investment entity.	6.1.1450

Optional exemptions

Entities may elect to use one or more of the voluntary exemptions from the general requirement for retrospective application of AAS. Some of these need to be applied to classes of items or transactions; others may be elected on an item-by-item basis. These elections may not be applied to other items by analogy.

The following table summarises the optional exemptions available to a first-time adopter. The *Insights into IFRS* references contain further discussion on each item listed.

Optional exemptions	**Exemption applies to**	**Insights reference**
Business combinations	All business combinations that occurred before the date of transition, or before an earlier date if so elected. Also applies to acquisitions of associates and interests in joint ventures.	6.1.950
Share-based payment transactions	Equity instruments granted on or before 7 November 2002, equity instruments granted after 7 November 2002 that vested before the date of transition, and liabilities for cash-settled awards that were settled before the date of transition.	6.1.850
Insurance contracts	Insurance contracts and financial instruments with a discretionary participation feature and claims development information.	6.1.1410
Fair value or revaluation as deemed cost	Items of property, plant and equipment, certain intangible assets, and investment property measured under the cost model. Some or all assets and liabilities following a remeasurement event.	6.1.290, .390, .460 6.1.270
Deemed cost for oil and gas assets	Oil and gas properties accounted for in cost centres that include all properties in a large geographic area (often referred to as ‘full cost accounting’).	6.1.1420
Deemed cost for rate-regulated operations	Items of property, plant and equipment or intangible assets used in certain rate-regulated activities.	6.1.320 & .400
Arrangements containing a lease	All arrangements outstanding at the date of transition.	6.1.1370
Cumulative translation differences	All cumulative translation differences existing at the date of transition.	6.1.1170

Optional exemptions	Exemption applies to	Insights reference
Investments in subsidiaries, associates and joint ventures	Separate financial statements of a parent/investor.	6.1.1440
Assets and liabilities of subsidiaries, associates and joint ventures	Subsidiary, associate or joint venture that adopts IFRS Standards after the parent/investor.	6.1.1290
Compound financial instruments	Compound financial instruments in respect of which the liability component is no longer outstanding at the date of transition.	6.1.670
Designation of previously recognised financial instruments	Financial instruments that meet certain conditions.	6.1.570.20 & .610
Designation of contracts to buy or sell a non-financial item	Contracts to buy or sell a non-financial item that meets the own-use exemption.	6.1.620
Fair value measurement of financial assets and financial liabilities on initial recognition	Certain financial assets or financial liabilities arising from transactions entered into on or after the date of transition.	6.1.630
Extinguishing financial liabilities with equity instruments	Renegotiation of the terms of a financial liability in which a debtor issues equity instruments to a creditor to extinguish all or part of the financial liability.	6.1.660
Decommissioning liabilities	All decommissioning liabilities that will be included in the carrying amount of property, plant and equipment.	6.1.800
Decommissioning liabilities related to oil and gas assets	Decommissioning liabilities related to oil and gas assets in the development or production phases for which the deemed cost exemption is used.	6.1.1420
Service concession arrangements	All service concession arrangements outstanding at the date of transition.	6.1.1380
Borrowing costs	Borrowing costs incurred on qualifying assets.	6.1.500

Optional exemptions	Exemption applies to	Insights reference
Moving from severe hyperinflation	All assets and liabilities held before the functional currency normalisation date, which is on or before the date of transition.	6.1.1190
Joint arrangements	All joint arrangements.	6.1.1210.60
Stripping costs in the production phase of a surface mine	Stripping costs in the scope of AI 20.	6.1.1420.60
Revenue	Contracts with customers in the scope of AASB 15.	6.1.1360
Foreign currency transactions and advance consideration	Assets, expenses and income in the scope of AI 22.	6.1.1200

Combining exceptions and exemptions

More than one exemption may be applied to a particular asset or liability

For example, a first-time adopter that elects not to restate a past business combination may also choose to apply the fair value or revaluation as deemed cost exemption to an item of property, plant and equipment acquired in an unrestated business combination. Under the business combination exemption, the previous initial measurement at acquisition of the assets and liabilities acquired in the business combination becomes their deemed cost under AAS at the date of acquisition. However, the additional application of the deemed cost exemption, at a date later than when the asset was acquired in the unrestated business combination, means that the valuation at that later date is adopted as the asset's deemed cost in the opening AAS statement of financial position.

Certain exemptions may not be combined

For example, AASB 1 requires assets and liabilities of subsidiaries that have adopted AAS before a parent to be measured in the consolidated financial statements at the same carrying amounts as in the subsidiary's financial statements after adjusting for consolidation and the effects of the business combination. In our view, this requirement generally prevents the use of another exemption that would alter these carrying amounts – for example, the deemed cost exemption.

3.3 Examples where not all R&M were previously applied

For convenience we have included some discussion on what we anticipate will be the most common R&M adjustments to the date of transition statement of financial position.

The examples covered are:

3.4	First-time consolidation of a subsidiary
3.5	First-time equity accounting for an investment in associate
3.6	First-time accounting of employee benefits under AASB 119 *Employee Benefits*
3.7	First-time accounting of leases under AASB 16 *Leases*
3.8	First-time accounting of deferred taxes under AASB 112 *Income Taxes*

The examples contained in this publication are of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

3.4 First-time consolidation

The fundamental requirement of AASB 10 is that a parent entity must present consolidated financial statements in which it consolidates its investments over which it has control (i.e., its subsidiaries), except where the parent meets one of the consolidation exemptions discussed below.

3.4.1 General consolidation exemption

Under AASB paragraph 4(a) a parent is **not** required to present consolidated financial statements if **all** of the following apply:

(i) The parent is a wholly-owned or partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.
(ii) The parent does not have any debt or equity instruments traded in a public market.
(iii) The parent does not file, nor is it in the process of filing, its financial statements with a market regulator (for example, the Australian Stock Exchange) for the purposes of issuing any class of instruments in a public market.
(iv) The parent's ultimate or intermediate parent produces financial statements that are available for public use, comply with IFRS Standards and include the parent.

3.4.2 Consolidation exemption extended – GPFS-Tier 2 SD and NFP entities

AASB 10 paragraph Aus4.1 extends the relief by removing the requirement for the consolidated financial statements to be prepared by a parent in certain circumstances, as discussed in the following paragraph.

Under Aus4.1, the conditions in paragraphs AASB 10.4(a)(i) to 4(a)(iii) must be met (see the general consolidation exemption above). Aus4.1 of AASB 10 specifies that a parent need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements available for public use and:

- the parent and its ultimate or intermediary parent are:
  - both not-for-profit entities complying with AAS, or
  - both are entities complying with AAS – Simplified Disclosures (i.e., GPFS-Tier 2 SD), or
- the parent entity is complying with AAS – Simplified Disclosures (i.e., GPFS-Tier 2 SD) and its ultimate or intermediate parent is a not-for-profit entity complying with AAS.

3.4.3 Consolidation exemption limited – Ultimate Australian parent

AASB 10 paragraph Aus4.2 states that, notwithstanding paragraph 4(a) and Aus4.1 the ultimate Australian parent shall present consolidated financial statements when the ultimate parent is required by legislation to prepare financial statements that comply with either AAS or accounting standards, except if the ultimate Australian parent is an investment entity (i.e., measures all of its subsidiaries at fair value through profit or loss).

Paragraph Aus4.2 therefore restricts entities that are the ultimate Australian parent from applying the consolidation reliefs available in paragraph 4(a) and Aus4.1 if they are required by their legislation to prepare financial statements in compliance with either AAS or accounting standards.

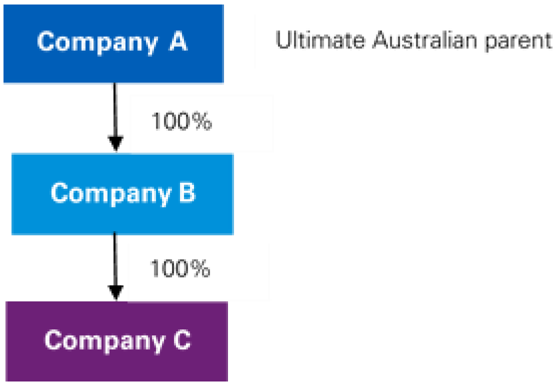
An entity transitioning from SPFS to GPFS-Tier 2 SD would not be required to prepare consolidated financial statements where it qualifies for one of the consolidation exemptions in AASB 10 discussed above. However, where an entity is not eligible for any of the consolidation exemptions in AASB 10, it will need to present consolidated financial statements.

Examples

The application of consolidation exemptions in AASB 10 is illustrated in the examples below.

Example 2: Consolidation exemption (4(a))

Consider the following structure where Company A is the ultimate Australian parent in a group comprising of three companies – A, B and C – all for-profit entities and reporting under the Corps Act (i.e., there is no deed of cross guarantee in place). Company A controls Company B who in turns controls Company C.



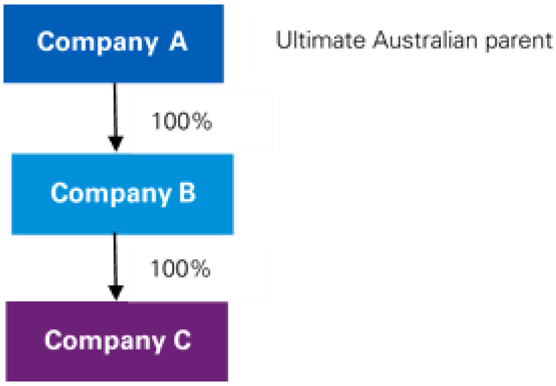
Company A prepares GPFS-Tier 1 (consolidated) that are IFRS Standard compliant and available for public use. Company B currently prepares SPFS and does not consolidate Company C.

Company B will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020. Assume that Company B meets the conditions in paragraphs AASB 10 paragraphs 4(a)(i) to 4(a)(iii).

Applying the guidance in paragraph 4(a) of AASB 10, Company B would be eligible for the consolidation exemption given Company A prepares financial statements that are compliant with IFRS Standards. Therefore, Company B would **not** be required to prepare consolidated financial statements when it transitions from SPFS to GPFS-Tier 2 SD. **Company B will therefore need to prepare separate GPFS-Tier 2 SD.**

Example 3: Consolidation exemption (Aus4.1)

Consider the following structure where Company A is the ultimate Australian parent in a group comprising of three companies – A, B and C – all for-profit entities and reporting under the Corps Act (i.e., there is no deed of cross guarantee in place). Company A controls Company B who in turns controls Company C.



Company A prepared GPFS-Tier 2 RDR (consolidated) for the year ended 30 June 2021. Company B currently prepared SPFS and does not consolidate Company C, for the same financial year.

Company A will transition from GPFS-Tier 2 RDR to GPFS-Tier 2 SD for the year ended 30 June 2022. Company A will continue to prepare consolidated financial statements and make them available for public use.

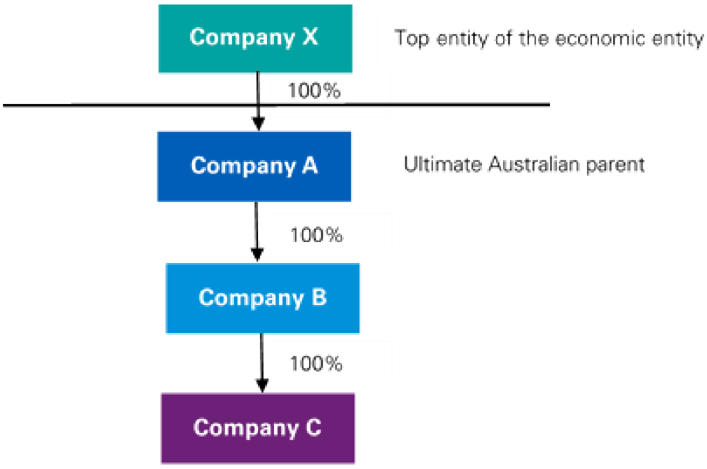
Company B will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020. Company B would not be eligible for the consolidation exemption in AASB 10 paragraph 4(a), given Company A does not prepare financial statements that are compliant with IFRS Standards – i.e., AASB 10 paragraph 4(a)(iv) would not be met.

Company B, however, would be eligible for consolidation exemption in AASB 10 paragraph Aus4.1 because its ultimate parent (Company A) produces consolidated financial statements available for public use and both the parent (Company B) and the ultimate parent (Company A) prepare financial statements in accordance with GPFS-Tier 2 SD reporting requirements that comply with AAS. Therefore, Company B would **not** be required to prepare consolidated financial statements when it transitions from SPFS to GPFS-Tier 2 SD. **Company B will therefore need to prepare separate GPFS-Tier 2 SD.**

Example 4: Limitation of consolidation exemption (Aus4.2)

Consider the following structure where Company A is the ultimate Australian parent in a group comprising of three companies – A, B and C – all for-profit entities and reporting under the Corps Act (i.e., there is no deed of cross guarantee in place). Company A controls Company B who in turns controls Company C.

Company A is controlled by Company X, a company registered in a foreign jurisdiction. Company X prepares consolidated financial statements that are IFRS Standard compliant and available for public use.



Both Company A and Company B prepared SPFS (not consolidated) for the year ended 30 June 2021. Both companies will transition from SPFS to GPFS-Tier 2 SD for the year ended 30 June 2022. Assume that both Company A and Company B meets the conditions in paragraphs AASB 10 paragraphs 4(a)(i) to 4(a)(iii).

<u>Company A</u>

Applying the guidance in paragraph 4(a) of AASB 10, it may appear that Company A would be eligible for the consolidation exemption given Company X prepares financial statements that are compliant with IFRS Standards. However, Company A would **not be eligible for consolidation exemption** in this scenario.

Paragraph Aus4.2 states that, notwithstanding paragraph 4(a) the ultimate Australian parent shall present consolidated financial statements when the ultimate parent is required by legislation to prepare financial statements that comply with either AAS or accounting standards – which is the case for Company A.

Company A will therefore need to present **consolidated** GPFS-Tier 2 SD.

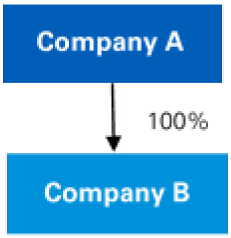
<u>Company B</u>

Applying the guidance in paragraph Aus4.1 – the ultimate Australian parent (Company A) produces consolidated financial statements available for public use and both the parent (Company B) and the ultimate Australian parent (Company A) prepare financial statements in accordance with GPFS-Tier 2 SD reporting requirements that comply with AAS. Therefore, Company B would **not** be required to prepare consolidated financial statements when it transitions from SPFS to GPFS-Tier 2 SD. **Company B will therefore need to prepare separate GPFS-Tier 2 SD.**

Company B could also utilise the consolidation exemption in paragraph 4(a) given Company X prepares financial statements that are compliant with IFRS Standards. This would result in the same outcome.

Example 5: No consolidation exemption

Consider the following structure where Company A controls Company B. Both are for-profit entities and reporting under the Corps Act (i.e., there is no deed of cross guarantee in place).



Both Company A and Company B prepared SPFS (not consolidated) for the year ended 30 June 2021. Both companies will transition from SPFS to GPFS-Tier 2 SD for the year ended 30 June 2022.

Company A

Company A is owned by two unrelated individuals – i.e., it has no parent. Company A is a parent to Company B. The relief available under AASB 10 paragraphs 4(a) and Aus4.1 are therefore not applicable.

Company A will therefore need to present **consolidated** GPFS-Tier 2 SD.

Company B

Company B is not a parent and as such **will therefore need to prepare individual GPFS-Tier 2 SD.**

3.4.4 First-time consolidation of a subsidiary

Most entities previously preparing SPFS would have historically not prepared consolidated financial statements. Many of these entities will now be required to prepare GPFS-Tier 2 SD for financial years beginning on or after 1 July 2021, i.e., for 30 June 2022 year ends.

As part of the transition to GPFS-Tier 2 SD entities (required to prepare financial statements) which are a parent will need to prepare consolidated financial statements unless they qualify for one of the consolidation exemptions in AASB 10.

Where an entity is consolidating its subsidiaries for the first-time it may elect to apply the requirements in AASB 1. The adjustments required on first time consolidation of a subsidiary would depend on whether the subsidiary being consolidated was acquired in a business combination or not. The term business combination is defined in AASB 3 *Business Combinations* and is discussed in *Insights into IFRS* Chapter 2.6. Paragraph C4 of AASB 1 provides further details of guidance available which is discussed below.

Subsidiary acquired in a business combination

AASB 1 provides the following guidance when a subsidiary which was acquired in a business combination transaction is being consolidated for the first-time. The entity would follow the following steps at the date of transition to GPFS-Tier 2 SD:

- Measure the assets and liabilities of the subsidiary in the parent's first consolidated statement of financial position based on the amounts that would be recognised in the subsidiary's financial statements if it had **applied all the R&M requirements** in AAS (i.e., may not be the previously reported SPFS numbers).
- Measure deemed goodwill at the date of transition as the difference between:
  - the parent's interest in the amounts ascribed to the assets and liabilities of the subsidiary in the first bullet point above, and
  - the cost of the parent's interest in the subsidiary, as reflected in the parent's separate financial statements, or as reflected in the parent's accounts before consolidation if separate financial statements are not prepared.

The example below illustrates the adjustment required for recognition of goodwill when a subsidiary that was acquired in a business combination transaction would be consolidated for the first time on transition to GPFS-Tier 2 SD.

Example 6: First-time consolidation (business combination)

Company M will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020.

Company M acquired all the ordinary shares (equity) of Company S from a third party in a business combination transaction some time before 2010. Company M has previously only prepared separate SPFS (unconsolidated).

Company M acquired Company S for $3,000,000, which is the cost of the investment in Company S in Company M's separate financial statements.

In preparing its financial statements, Company S had applied all the R&M requirements in AAS. The carrying amount of Company S's net assets at the date of transition is as follows:

Statement of net assets	1 July 2020 $
Assets	
Cash and cash equivalents	1,500,000
Trade and other receivables	2,000,000
Prepayments	1,000,000
Property, plant and equipment	4,500,000
Liabilities	
Trade and other payables	2,500,000
Current tax liabilities	2,000,000
Provisions	1,500,000
Deferred tax liabilities	500,000
Net assets	2,500,000

Deemed goodwill calculation	1 July 2020 $
Cost of investment	3,000,000
Net assets	2,500,000
Deemed goodwill	500,000

Therefore, Company M will record the following entry on **date of transition**:

Date	Journal entry			
01/07/2020	Dr	Cash and cash equivalents	$1,500,000	
	Dr	Trade and other receivables	$2,000,000	
	Dr	Prepayments	$1,000,000	
	Dr	Property, plant and equipment	$4,500,000	
	Dr	Goodwill	$ 500,000	
	Cr	Trade and other payables		$2,500,000
	Cr	Current tax liabilities		$2,000,000
	Cr	Provisions		$1,500,000
	Cr	Deferred tax liabilities		$ 500,000
	Cr	Investment in Company S		$3,000,000
	To recognise first-time consolidation entry on transition.			

Subsidiary acquired NOT in a business combination

When a subsidiary which was not acquired in a business combination transaction (for example, because the subsidiary was created by the parent in the past) is being consolidated for the first time, then no goodwill is recognised on consolidation. In such cases, if the net assets of the subsidiary are less than the cost of the investment in the parent's separate financial statements, then the resulting adjustment does not create goodwill, but instead reduces retained earnings.

The example below illustrates the adjustment required when a subsidiary that was **not** acquired in a business combination transaction would be consolidated for the first time on transition to GPFS-Tier 2 SD.

Example 7: First-time consolidation (NOT a business combination)

Company N will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020.

Company N incorporated Company C some time before 2010 by injection of a cash capital contribution of $3,000,000 – which is the cost of the investment in Company C in Company N's separate financial statements.

In preparing its financial statements, Company C had applied all the R&M requirements in AAS. The carrying amount of Company C's net assets at the date of transition is as follows:

Statement of net assets	1 July 2020 $
Assets	
Cash and cash equivalents	1,500,000
Trade and other receivables	2,000,000
Prepayments	1,000,000
Property, plant and equipment	4,500,000
Liabilities	
Trade and other payables	2,500,000
Current tax liabilities	2,000,000
Provisions	1,500,000
Deferred tax liabilities	500,000
Net assets	2,500,000

Adjustment to retained earnings	1 July 2020 $
Cost of investment	3,000,000
Net assets	2,500,000
Net	500,000

Therefore, Company N will record the following entry on **date of transition**:

Date	Journal entry			
01/07/2020	Dr	Cash and cash equivalents	$1,500,000	
	Dr	Trade and other receivables	$2,000,000	
	Dr	Prepayments	$1,000,000	
	Dr	Property, plant and equipment	$4,500,000	
	Dr	Retained earnings	$ 500,000	
	Cr	Trade and other payables		$2,500,000
	Cr	Current tax liabilities		$2,000,000
	Cr	Provisions		$1,500,000
	Cr	Deferred tax liabilities		$ 500,000
	Cr	Investment in Company C		$3,000,000
	To recognise first-time consolidation entry on transition.			

3.5 First-time equity accounting

The fundamental requirement of AASB 128 *Investments in Associates and Joint Ventures* is that an entity which is a parent is required to apply the equity method to its investments in associates and joint ventures, except where the parent is either:

- exempted from preparing consolidated financial statements by the scope exception in paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10 (see 'first-time consolidation accounting' above), or
- eligible for additional 'venture capital' scope exclusion discussed below.

3.5.1 Venture capital or similar organisation exemption

When investments in associates and joint ventures is held by, or indirectly held through, an entity that is a venture capital organisation, mutual fund, unit trust or similar entity, including an investment-linked insurance fund, such entities may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with AASB 9 *Financial Instruments*.

3.5.2 First-time equity accounting of an associate

Historically most entities would only equity account an investment in an associate if they were preparing consolidated financial statements.

Most entities previously preparing SPFS would have historically not prepared consolidated financial statements. Many of these entities will now be required to prepare GPFS-Tier 2 SD for financial years beginning on or after 1 July 2021, i.e., for 30 June 2022 year ends.

As part of the transition to GPFS-Tier 2 SD entities (required to prepare financial statements) which are a parent will need to prepare consolidated financial statements unless they qualify for one of the consolidation exemptions in AASB 10 (discussed above). Assuming that the entity does not qualify for the venture capital or similar organisation exemption, then it will be required to equity account for its investments in associates in its consolidated GPFS-Tier 2 SD.

Where an entity is equity accounting an investment in an associate for the first-time it may elect to apply the requirements in AASB 1. Paragraph C5 of AASB 1 provides an optional exemption (discussed below) whereby an entity can elect not to apply equity accounting retrospectively to its investments in associates and joint ventures that were acquired before the date of transition (i.e., 1 July 2020). We expect most entities will take advantage of this optional exemption available under AASB 1 when transitioning from SPFS to GPFS-Tier 2 SD.

Optional exemption not to apply equity accounting retrospectively

If an entity takes advantage of the optional exemption, it will follow the following steps at the date of transition to GPFS-Tier 2:

- Remeasure the assets and liabilities of the associate or the joint venture in its separate financial statements based on the amounts that would be recognised if it had **applied all the R&M requirements** in AAS (i.e., may not be the previously reported SPFS numbers).
- Measure deemed goodwill at the date of transition as the difference between:
  - the parent's interest in the amounts ascribed to the assets and liabilities of the associate or the joint venture in the first bullet point above, and
  - the cost of the parent's investment in the associate or the joint venture, as reflected in the parent's separate financial statements, or as reflected in the parent's accounts before consolidation if separate financial statements are not prepared.

Given the assets and liabilities of the associate or the joint venture in its separate financial statements are based on the amounts that would be recognised if it had applied all the R&M requirements in AAS there will be no further notional adjustments to be considered as part of the equity accounting process. This means that subsequent equity accounting will be based on the investors share of profits of the associate or joint ventures based on its separate financial statements. The equity carrying value of the investment will still be subject to impairment considerations.

Note – deemed goodwill is not separately disclosed in the consolidated financial statements – i.e., it forms part of the carrying value of the investment in associate.

Example

Similar to first time consolidation of a subsidiary discussed above, the entity should consider applying the relevant R&M requirements of AASB 1 in the associate or joint venture's own financial statements if the associate or joint venture had not previously applied all the R&M requirements in AAS.

The example below illustrates the calculation of deemed goodwill when an entity elects to apply the optional exemption not to apply equity accounting retrospectively.

Example 8: First-time equity accounting investment in associate

Company N will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020. Company N will elect to apply the optional exemption (not to apply equity accounting retrospectively) on the date of transition.

Company N acquired a 30% interest in the equity of Company T some time before 2010 by injection of a cash capital contribution of $1,200,000 – which is the cost of the investment in Company T in Company N's separate financial statements.

In preparing its financial statements, Company T had applied all the R&M requirements in AAS. The carrying amount of Company T's net assets at the date of transition is as follows:

Statement of net assets	1 July 2020 $
Assets	
Cash and cash equivalents	1,500,000
Trade and other receivables	3,000,000
Prepayments	1,000,000
Property, plant and equipment	4,500,000
Liabilities	
Trade and other payables	2,500,000
Current tax liabilities	2,000,000
Provisions	1,500,000
Deferred tax liabilities	500,000
Net assets	3,500,000

Deemed goodwill calculation	1 July 2020 $
Cost of investment	1,200,000
Net assets ($3,500,000 @ 30%)	1,050,000
Deemed goodwill	150,000

No adjusting journal entry is required.

3.6 First-time employee benefits accounting

AABS 1 does not contain any specific exceptions or exemptions in respect of employee benefits accounting. As such an entity would follow the general guidance in AASB 1 paragraph 7 which requires the application of the respective IFRS Standard that deals with employee benefits.

Employee benefits are accounted for in accordance with AASB 119 *Employee Benefits*. Employee benefits include all forms of consideration given by an entity in exchange for services provided by employees, and include benefits provided directly to employees, to their dependants or to others. Such employee benefits can be categorised as follows:

- short-term employee benefits, for example, wages and salaries, paid sick leave, bonuses etc.
- post-employment benefits, for example, pension and post-employment medical care
- other long-term employee benefits, for example, long-term disability
- termination benefits.

Liabilities and expenses for employee benefits are generally recognised in the period in which the services are rendered. If an entity, currently preparing SPFS, does not account for employee benefits on an accrual basis (for example, has not recognised a liability for accrued annual leave), an adjustment would be required for unrecognised accrued annual leave at the date of transition as illustrated in the example below.

Example

Example 9: Accrual for annual leave

Company S will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020.

Employees of Company S receive 20 days' annual leave a year. To the extent that leave is not taken by the end of June in the relevant year, each employee is able to carry forward leave balance indefinitely. Unpaid leave is paid out in cash, if the employee resigns.

At 1 July 2020 a total of 200 employees have an average of five days' leave that is carried forward, which is measured at $450,000.

Under previous SPFS accounting policy, no liability was recognised as Company S accounted for annual leave on a 'taken' basis. AASB 119 would require the annual leave to be accounted for as a short-term employee benefit – i.e., using normal accrual accounting. The balance of the untaken leave is required to be included as a provision in the date of transition statement of financial position.

Therefore, Company S will record the following entry on **date of transition**:

Date	Journal entry		
01/07/2020	Dr Retained earnings	$450,000	
	Cr Provision for employee benefits		$450,000
	To recognise provision for accrued annual leave at date of transition. *Income tax effects have been ignored for the purposes of this example*		

3.7 First-time lease accounting

Leases are accounted for in accordance with AASB 16 *Leases* which requires leases to be recognised on-balance sheet by a lessee unless it elects the recognition exemptions for short-term leases and/or low-value assets. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

AASB 1 paragraphs D9 through D9E contains specific guidance with an entity that is applying AASB 1 and accounting for leases in accordance with AASB 16 for the first time. *Insights into IFRS* contains further discussion of this guidance at 6.1.1370.

If an entity preparing SPFS that is a lessee does not recognise leases on-balance sheet at the date of transition to GPFS-Tier 2 SD, then it would be permitted to choose the following approaches to apply to its leases which do not qualify for short-term leases or low-value asset recognition exemptions:

- Measure the lease liability at the present value of the remaining lease payments, discounted using its incremental borrowing rate at the date of transition.
- Measure a ROU asset, on a lease-by-lease basis, at either:
  - its carrying amount as if AASB 16 had been applied since the commencement date of the lease, but discounted using its incremental borrowing rate at the date of transition, or
  - an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition.
- Apply AASB 136 *Impairment of Assets* to the ROU asset at the date of transition.

An entity that is a lessee can elect to apply the following optional exemptions on a lease-by-lease basis in recognising leases on-balance for the first time at the date of transition to GPFS-Tier 2 SD:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- apply the recognition exemptions to leases for which the lease term ends within 12 months of the date of transition or to leases for which the underlying asset is of low value. Instead, the entity would recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis
- exclude initial direct costs from the measurement of the ROU asset
- use hindsight – for example, in determining the lease term if the contract contains options to extend or terminate the lease.

Example

The example below illustrates the adjustment that would be required at the date of transition to GPFS-Tier 2 SD if leases are currently not recognised on-balance sheet by a lessee.

Example 10: Bringing leases on balance sheet (lessee)

Company J will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020.

Company J has previously entered into a number of contracts that provide Company J a right to use specific motor vehicles for a period of time and meet the definition of a lease under AASB 16. Under the previous SPFS accounting policy, the lease payments were expensed as incurred. Under AASB 16, the lessee is required to recognise leases on-balance sheet. The leases of motor vehicles do not qualify for short-term lease and low-value asset exemptions.

In recognising leases of motor vehicles on-balance sheet, Company J recognises ROU assets and lease liabilities at the date of transition as below:

- Company J measures lease liabilities at the present value of the remaining lease payments, discounted using its incremental borrowing rate at the transition date. As a result, the lease liability of $750,000 is calculated at 1 July 2020.
- Company J elects to measure the ROU assets at their carrying amount as if AASB 16 had been applied since the commencement date of the lease but discounted using its incremental borrowing rate at the date of transition. As a result, ROU assets of $625,000 are calculated at 1 July 2020

Therefore, Company J will record the following entry on **date of transition**:

Date	Journal entry			
01/07/2020	Dr	Retained earnings	$125,000	
	Dr	ROU assets	$625,000	
	Cr	Lease liabilities		$750,000
	To recognise leases on balance sheet at date of transition. *Income tax effects have been ignored for the purposes of this example*			

3.8 First-time deferred tax accounting

AABS 1 does not contain any specific exceptions or exemptions in respect of deferred tax accounting. As such an entity would follow the general guidance in AASB 1 paragraph 7 which requires the application of the respective IFRS Standard that deals with income taxes. *Insights into IFRS* contains further discussion of this issue at 6.1.920.

Income taxes are accounted for in accordance with AASB 112 *Income Taxes*. One of the basic principles in accounting for income taxes is to recognise deferred taxes for the future tax consequences of events that have been recorded in the financial statements. Such future tax consequences result from differences between the accounting carrying amounts of assets or liabilities recognised in financial statements and their respective tax bases – generally referred to as 'temporary differences'.

If an entity preparing SPFS does not recognise deferred taxes, then it would follow these steps at the date of transition to GPFS-Tier 2 SD:

- Identify the temporary differences at the date of transition.
- Measure deferred taxes at tax rates expected to apply when the deferred tax asset or deferred tax liability is realised or settled, based on tax rates and laws that have been enacted or substantively enacted at period end.
- Recognise deferred taxes with corresponding adjustments in retained earnings.

The example below illustrates the adjustment that would be required at the date of transition to GPFS-Tier 2 SD if an entity does not recognise deferred taxes under its previous SPFS – i.e., the entity accounts for only current taxes payable.

Examples

Example 11: Deferred tax adjustment

Company J will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020.

Continuing with Example 10 above, assume that lease payments are deductible for tax purposes as incurred, matching the previous accounting treatment.

The tax base of the ROU asset is nil because there are no associated tax deductions from recovering the asset. The lease liability's tax base is also nil because the lease payments are deductible in the future. This means that the net tax base of the motor vehicles lease is nil. The tax rate that applies to Company J is 30 percent.

In this example, because the net carrying amount of the ROU asset and the lease liability is $125,000, there is a net deductible temporary difference of $125,000 given the net combined tax base of the ROU asset and the lease liability is nil.

Company J would recognise a deferred tax asset of $37,500 ($125,000 x 30 percent) at 1 July 2020 with a corresponding adjustment to retained earnings.

Therefore, Company J will record the following entry on **date of transition**:

Date	Journal entry			
01/07/2020	Dr	Deferred tax asset	$37,500	
	Cr	Retained earnings		$37,500
	To recognise tax effect accounting impact for leases at date of transition.			

The example below illustrates the adjustment that would be required at the date of transition to GPFS-Tier 2 SD if an entity has a previous accounting policy of accounting for income tax on a current paid/payable basis – i.e., did not account for any deferred tax balances.

Example 12: Deferred tax initial recognition

Company J will transition from SPFS to GPFS-Tier 2 SD for the year ending 30 June 2022, with the date of transition of 1 July 2020.

Company J has 10 trucks recorded as plant and equipment (at cost) on its balance sheet. In the prior years SPFS Company J had complied with all the R&M requirements in AASB 116 *Property, Plant and Equipment*. The 10 trucks are depreciable for income tax purposes.

In the prior year financial statements Company J did not account for any deferred tax asset/liability in relation to the 10 trucks – i.e., Company J accounted for income tax on a current paid/payable basis.

The following are the relevant amounts as at 1 July 2020:

10 Trucks	Carrying Amt	Tax Base	Difference
Cost	$10,000,000	$10,000,000	Nil
Accumulated depreciation	($2,000,000)	($3,000,000)	$1,000,000
Net	$8,000,000	$7,000,000	$1,000,000

Company J would recognise a deferred tax asset of $300,000 ($1,000,000 x 30 percent) at 1 July 2020 with a corresponding adjustment to retained earnings.

Therefore, Company J will record the following entry on **date of transition**:

Date	Journal entry			
01/07/2020	Dr	Retained earnings	$300,000	
	Cr	Deferred tax liability		$300,000
	To recognise tax effect accounting impact for 10 trucks at transition date.			

4. AASB 108 transition

4.1 Background

As detailed in the previous section, AASB 1053 requires entities to apply either AASB 1 or AASB 108 (a free choice) in a number of situations where an entity first applies GPFS-Tier 2 SD. This section works through a requirement to apply AASB 108 when transitioning to GPFS-Tier 2 SD.

The principles of AASB 108 are a fully retrospective application of AAS. For this reason, in our view, we would expect that most entities will not elect this option. As discussed in the previous section AASB 1 provides a number of practical exemptions and exceptions which from a cost/benefit point of view make electing the principles in AASB 1 the 'most preferred and easier' choice.

For example, where a previously unconsolidated subsidiary was acquired 10 years ago, AASB 108 would require the completion of a detailed purchase price allocation process to be conducted based on information that was known at the acquisition date (10 years ago). AASB 1 provides a short-cut method which is much easier to apply in practice.

KPMG's *Insights into IFRS* Chapter 2.8 contains our detailed guidance on the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. AASB 108 is the Australian equivalent to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

5. Disclosures

In this section we provide some example wording for:

- The basis of preparation financial statement note when entities adopt GPFS-Tier 2 SD (for the first-time) for financial years beginning on or after 1 July 2021 – for example, 30 June 2022 financial years.
- Disclosures required where AASB 1053 requires that application of AASB 1 on transition.

5.1 Basis of preparation

The following provides some example basis of preparation notes where an entity first adopts GPFS-Tier 2 SD for periods beginning on or after 1 July 2021. The notes have been drafted up for a financial year ending 30 June 2022. **The wording is for consolidated financial statements**. *Where an entity is not a parent you will need to amend the wording accordingly.*

The following examples are considered below.

- 5.1.1 – Transition – SPFS to GPFS-Tier 2 SD (initial adoption)
- 5.1.2 – Transition – SPFS to GPFS-Tier 2 SD (re-application)
- 5.1.3 – Transition – GPFS-Tier 1 to GPFS-Tier 2 SD (first time or resuming)
- 5.1.4 – Transition – GPFS-Tier 2 RDR to GPFS-Tier2 SD
- 5.1.5 – Transition – SPFS to GPFS-Tier 2 SD (applying AASB 108)

Aspects that need to be considered include:

- Whether to apply AASB 1 or AASB 108 or neither.
- Changes to wording in the basis of preparation note:
  - explaining the reason for the change
  - explaining the impact of the change.
- Any additional disclosures (comparatives are required).

Example wording

In the opinion of the directors, the Company is not publicly accountable. These **[consolidated]** financial statements are general purpose financial statements for distribution to the members and for the purpose of fulfilling the requirements of the *Corporations Act 2001^*. They have been prepared in accordance with Australian Accounting Standards – Simplified Disclosures made by the Australian Accounting Standards Board and the *Corporations Act 2001*.

[INSERT MIDDLE PARAGRAPH(S) – FROM EXAMPLE WORDING discussed in each of the scenarios below]

These **[consolidated]** financial statements were authorised for issue by the Company's board of directors on **[date]**.

Details of the **[Group's]** accounting policies are included in Note **[#]**.

^ - where the entity is **not** a Corporations Act entity amend the wording accordingly.

5.1.1 Transition – SPFS to GPFS-Tier 2 SD (initial adoption)

This section covers where an entity moves from SPFS for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022. In years prior to 30 June 2021 the entity has always appropriately prepared SPFS.

For ease of use we have detailed a number of example fact patterns:

#1	Not a parent, applied all applicable R&M requirements
#2	Not a parent, did not apply all applicable R&M requirements
#3	Parent, did not apply all applicable R&M requirements (ignoring consolidation and equity accounting)
#4	Parent, prior year and current year – parent only financial statements (consolidation exemption)
#5	Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements
#6	Parent, prior year and current year – parent only financial statements
#7	Parent, prior year parent only financial statements and current year consolidated financial statements
#8	Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements
#9	Parent, prior year and current year consolidated financial statements
#10	Parent, prior year consolidated financial statements and current year parent only financial statements

Not a parent, applied all applicable R&M requirements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.2.1
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company assessed itself as a non-reporting entity. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Not a parent, did not apply all applicable R&M requirements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.2.2
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company assessed itself as a non-reporting entity. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Company has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Company's date of transition). The change impacts the recognition and measurement of amounts in the financial statement. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported financial position, financial performance and cash flows of the Company is provided in Note **[Y]**.

Parent, did not apply all applicable R&M requirements (ignoring consolidation and equity accounting)

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.2.3
Middle paragraphs **(refer section 5.1)**	These **[consolidated]** financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the **[consolidated]** financial statements were special purpose financial statements as the **[Company was/Company and the Group were both]** assessed as a non-reporting **[entity/entities]**. The **[Company/Group]** has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the **[Company/Group]** has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the **[Company's/Group's]** date of transition). The change impacts the recognition and measurement of amounts in the **[consolidated]** financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported **[consolidated]** financial position, financial performance and cash flows of the **[Company/Group]** is provided in Note **[Y]**.

Parent, prior year and current year – parent only financial statements (consolidation exemption)

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.2.4
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.2.5
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition). The change impacts the recognition and measurement of amounts in the consolidated financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note **[Y]**.

Parent, prior year and current year – parent only financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.2.6
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Parent, prior year parent only financial statements and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.2.7
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition). The change impacts the recognition and measurement of amounts in the consolidated financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note **[Y]**.

Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.2.8
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company and the Group were both assessed as non-reporting entities. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition). The change impacts the recognition and measurement of amounts in the consolidated financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note **[Y]**.

Parent, prior year and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.2.9
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the Group prepared consolidated special purpose financial statements. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the consolidated statements of financial position, profit and loss and other comprehensive income and cash flows of the Group.

Parent, prior year consolidated financial statements and current year parent only financial statements.

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.2.10
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the Group prepared consolidated special purpose financial statements. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Company has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Company's date of transition). The change impacts the recognition and measurement of amounts in the financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported financial position, financial performance and cash flows of the Company is provided in Note **[Y]**.

5.1.2 Transition – SPFS to GPFS-Tier 2 SD (re-application)

This section covers where an entity moves from SPFS for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022 – however for years ending 30 June 2020 or prior the entity prepared a set of GPFS (either Tier 1 or Tier 2 RDR which complied with all the relevant AAS).

For ease of use we have detailed a number of example fact patterns:

#1	Not a parent, applied all applicable R&M requirements
#2	Not a parent, did not apply all applicable R&M requirements
#3	Parent, did not apply all applicable R&M requirements (ignoring consolidation and equity accounting)
#4	Parent, prior year and current year – parent only financial statements (consolidation exemption)
#5	Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements
#6	Parent, prior year and current year – parent only financial statements
#7	Parent, prior year parent only financial statements and current year consolidated financial statements
#8	Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements
#9	Parent, prior year and current year consolidated financial statements
#10	Parent, prior year consolidated financial statements and current year parent only financial statements

Not a parent, applied all applicable R&M requirements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.3.1
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company assessed itself as a non-reporting entity. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Not a parent, did not apply all applicable R&M requirements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.3.2
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company assessed itself as a non-reporting entity. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Company has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Company's date of transition). The change impacts the recognition and measurement of amounts in the financial statement. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported financial position, financial performance and cash flows of the Company is provided in Note **[Y]**.

Parent, did not apply all applicable R&M requirements (ignoring consolidation and equity accounting)

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.3.3
Middle paragraphs **(refer section 5.1)**	These **[consolidated]** financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the **[consolidated]** financial statements were special purpose financial statements as the **[Company was/Company and the Group were both]** assessed as **[a]** non-reporting **[entity/entities]**. The **[Company/Group]** has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the **[Company/Group]** has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the **[Company's/Group's]** date of transition). The change impacts the recognition and measurement of amounts in the **[consolidated]** financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported **[consolidated]** financial position, financial performance and cash flows of the **[Company/Group]** is provided in Note **[Y]**.

Parent, prior year and current year – parent only financial statements (consolidation exemption)

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.3.4
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.3.5
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition). The change impacts the recognition and measurement of amounts in the consolidated financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note **[Y]**.

Parent, prior year and current year – parent only financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.3.6
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Parent, prior year parent only financial statements and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.3.7
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition). The change impacts the recognition and measurement of amounts in the consolidated financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note **[Y]**.

Parent, prior year parent only financial statements (non-reporting entity) and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.3.8
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were special purpose financial statements as the Company and the Group were both assessed as non-reporting entities. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition). The change impacts the recognition and measurement of amounts in the consolidated financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note **[Y]**.

Parent, prior year and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.3.9
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the Group prepared consolidated special purpose financial statements. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the consolidated statements of financial position, profit and loss and other comprehensive income and cash flows of the Group.

Parent, prior year consolidated financial statements and current year parent only financial statements.

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.3.10
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the Group prepared consolidated special purpose financial statements. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the Company has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Company's date of transition). The change impacts the recognition and measurement of amounts in the financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported financial position, financial performance and cash flows of the Company is provided in Note **[Y]**.

5.1.3 Transition – GPFS-Tier 1 to GPFS-Tier 2 SD (first-time or recurring)

This section covers where an entity moves from GPFS-Tier 1 for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022. In years prior to 30 June 2021 the entity has either prepared GPFS-Tier 1 or GPFS-Tier 2 (RDR).

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.4
Middle paragraphs **(refer section 5.1)**	These **[consolidated]** financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the **[consolidated]** financial statements were general purpose financial statements prepared in accordance with Australian Accounting Standards (Tier 1). The **[Company/Group]** has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[decrease/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the **[consolidated]** statements of financial position, profit and loss and other comprehensive income and cash flows of the **[Company/Group]**.

5.1.4 Transition – GPFS-Tier 2 RDR to GPFS-Tier 2 SD

This section covers where an entity moves from GPFS-Tier 2 RDR for 30 June 2021 to GPFS-Tier 2 SD for 30 June 2022.

For ease of use we have detailed a number of example fact patterns:

#1	Not a parent, applied all applicable R&M requirements
#2	Parent, prior year and current year – parent only financial statements (consolidation exemption)
#3	Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements
#4	Parent, prior year and current year consolidated financial statements
#5	Parent, prior year consolidated financial statements and current year parent only financial statements

Not a parent, applied all applicable R&M requirements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.5.1
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were general purpose financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[decrease/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Parent, prior year and current year – parent only financial statements (consolidation exemption)

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.5.2
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the financial statements were general purpose financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, as the Company applied the consolidation exemption in AASB 10. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[decrease/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the statements of financial position, profit and loss and other comprehensive income and cash flows of the Company.

Parent, prior year parent only financial statements (consolidation exemption) and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.5.3
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the financial statements were general purpose financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, as the Company applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[decrease/change]** in the level of disclosures. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition). The change impacts the recognition and measurement of amounts in the consolidated financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note **[Y]**.

Parent, prior year and current year consolidated financial statements

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, as detailed in section 2.5.4
Middle paragraphs **(refer section 5.1)**	These consolidated financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the consolidated financial statements were general purpose financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements. The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[decrease/change]** in the level of disclosures. The change has no impact on the recognition and measurement of amounts recognised in the consolidated statements of financial position, profit and loss and other comprehensive income and cash flows of the Group.

Parent, prior year consolidated financial statements and current year parent only financial statements.

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**Yes**, as detailed in section 2.5.5
Middle paragraphs **(refer section 5.1)**	These financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. The financial statements are for the Company as it has applied the consolidation exemption in AASB 10 *Consolidated Financial Statements*, refer Note **[W]** for further explanation. In the prior year the consolidated financial statements were general purpose financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements. The Company has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[decrease/change]** in the level of disclosures. On adoption of AASB 1060, the Company has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Company's date of transition). The change impacts the recognition and measurement of amounts in the financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported financial position, financial performance and cash flows of the Company is provided in Note **[Y]**.

5.1.5 Example where entity elects to apply AASB 108

The **following** is a generic example where an entity, which is transitioning from SPFS to GPFS-Tier 2 SD for a 30 June 2022 financial year end, elects to apply AASB 108 – following the requirements of AASB 1053.

"Middle" paragraphs wording (see example wording in section 5.1)	
Apply AASB 1?	**No**, instead the entity as applied AASB 108
Middle paragraphs **(refer section 5.1)**	These **[consolidated]** financial statements are the first general purpose financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. In the prior year the **[consolidated]** financial statements were special purpose financial statements as the **Company was/Company and the Group were both]** assessed as **[a]** non-reporting **[entity/entities]**. The **[Company/Group]** has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021 which resulted in an **[increase/change]** in the level of disclosures. On adoption of AASB 1060, the **[Company/Group]** has applied AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The change impacts the recognition and measurement of amounts in the **[consolidated]** financial statements. An explanation of how the transition to Australian Accounting Standards – Simplified Disclosures has affected the reported **[consolidated]** financial position, financial performance and cash flows of the **[Company/Group]** is provided in Note **[Y]**.

5.2 Example AASB 1 disclosures

Example of first-time consolidation

Illustrative disclosure prepared on the basis that:

- this is the first ever group financial statements
- AASB 1 is applied
- in prior years all entities in the group have complied with all R&M requirements in AAS except for consolidation and equity accounting (if applicable)
- the group consists of an investment in a subsidiary and an investment in an associate
- the group has not elected to apply any of the voluntary optional exemptions contain in AASB 1.

The disclosures drafted below are our view of what would be required to provide sufficient disclosure in the first group set of AAS financial statements on the adoption of consolidation and equity accounting, given your financial statements are audited.

Appendix 2 – Transition from SPFS to GPFS-Tier 2 SD

Notes to the consolidated financial statements

AASB 1060.106–108, 206-212

Y. Changes in significant accounting policies and explanation of transition to consolidated general purpose financial statements

As stated in Note 2, these are the Group's first consolidated financial statements prepared in accordance with Australian Accounting Standards – Simplified Disclosures. Previously the parent, Example Simplified Disclosure Pty Ltd, prepared separate special purpose financial statements.

The Group has adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* on 1 July 2021. On adoption of AASB 1060, the Group has applied AASB 1 *First Time Adoption of Australian Accounting Standards* with a date of initial application of 1 July 2020 (the Group's date of transition).The accounting policies set out in Note 35 have been applied in preparing the financial statements for the year ended 30 June 2022, the comparative information presented in these financial statements for the year ended 30 June 2021 and in the preparation of the opening balances for the statement of financial position as at 1 July 2020.

In applying the requirements of AASB 1, the Group has made the adjustments set out below.

Consolidation of subsidiary

The Group's investment in its subsidiary is consolidated from 1 July 2020, the date of transition. The Group has applied the option in AASB 1 to recognise goodwill on consolidation as the difference between the net assets of the subsidiary at the date of transition and the cost of the investment. Subsequent to transition, the Group accounts for its investment in subsidiary in accordance with the accounting policy described in Note 35(A).

The following table details the impact of applying this option.

Assets and liabilities of subsidiary recognised in accordance with Australian Accounting Standards

In thousand dollars	1 July 2020
Cash and cash equivalents	375
Trade and other receivables	4,848
Inventories	2,825
Property, plant and equipment	9,955
Trade and other payables	(2,460)
Other financial liabilities	(500)
Provisions	(150)
Deferred tax liabilities	(79)
Total net assets on 1 July 2020	**14,814**
Cost of investment in the subsidiary	1,464
Excess of the Group's interest in the net assets of subsidiary over the cost of investment in the subsidiary	**13,350**

Appendix 2 – Transition from SPFS to GPFS-Tier 2 SD

Notes to the consolidated financial statements

AASB 1060.106–108, 206-212

Y. Changes in significant accounting policies and explanation of transition to consolidated general purpose financial statements (continued)

Equity accounting investment in associate[a]

The Group has a 35% share in an associate. The investment in the associate is equity accounted from 1 July 2020, the date of transition. At the date of transition, the Group has included in the carrying amount of the investment in the equity-accounted associate the difference between the Group's share of net assets of associate and the cost of the investment. Subsequent to transition, the Group accounts for its investments in associate in accordance with the accounting policy described in Note 35(A)(iv).

The following table details the impact of applying this option.

Share of assets and liabilities of associate recognised in accordance with Australian Accounting Standards

In thousand dollars	1 July 2020
Total net assets on 1 July 2020	**1,281**
Cost of investment in the associate	958
Excess of the Group's interest in the net assets of associate over the cost of investment in the associate	**323**

Reconciliation of equity[b]

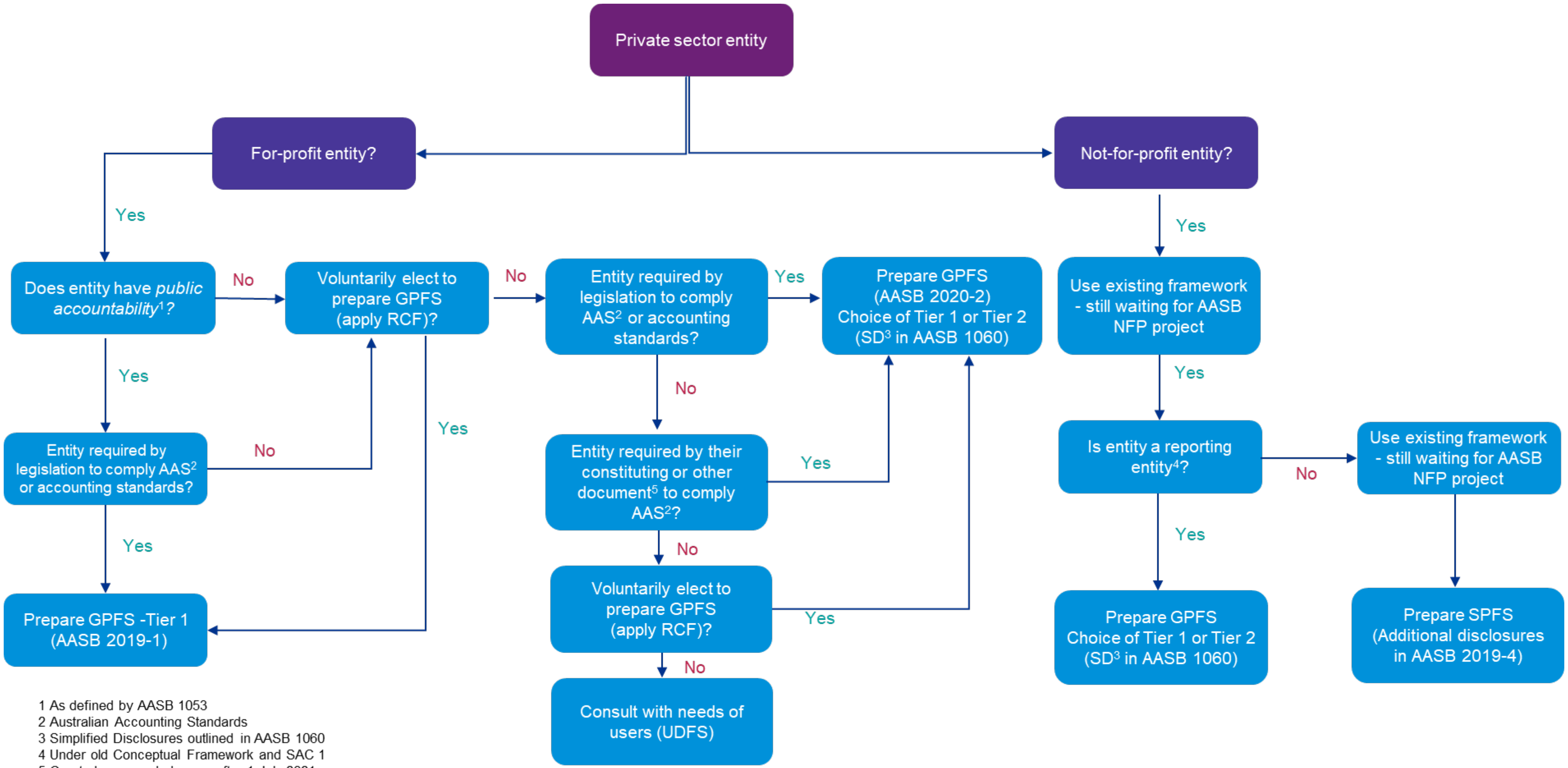
In thousand dollars	1 July 2020
Equity as reported in the parent's separate financial statements	21,078
Excess of the Group's interest in the net assets of subsidiaries over the cost of investment in the subsidiary at the date of transition	13,350
Excess of the Group's interest in the net assets of associates over the cost of investment in the associate at the date of transition	323
Consolidated equity as at the date of transition to Australian Accounting Standards – Simplified Disclosures	**34,751**

Other resources

The following additional resources are available:

- Illustrative financial statements: First-time adopters (extracts)
- Example Simplified Disclosures – Guide to annual reports
- Annual Disclosure Checklist – Simplified Disclosure Requirements

Appendix 1



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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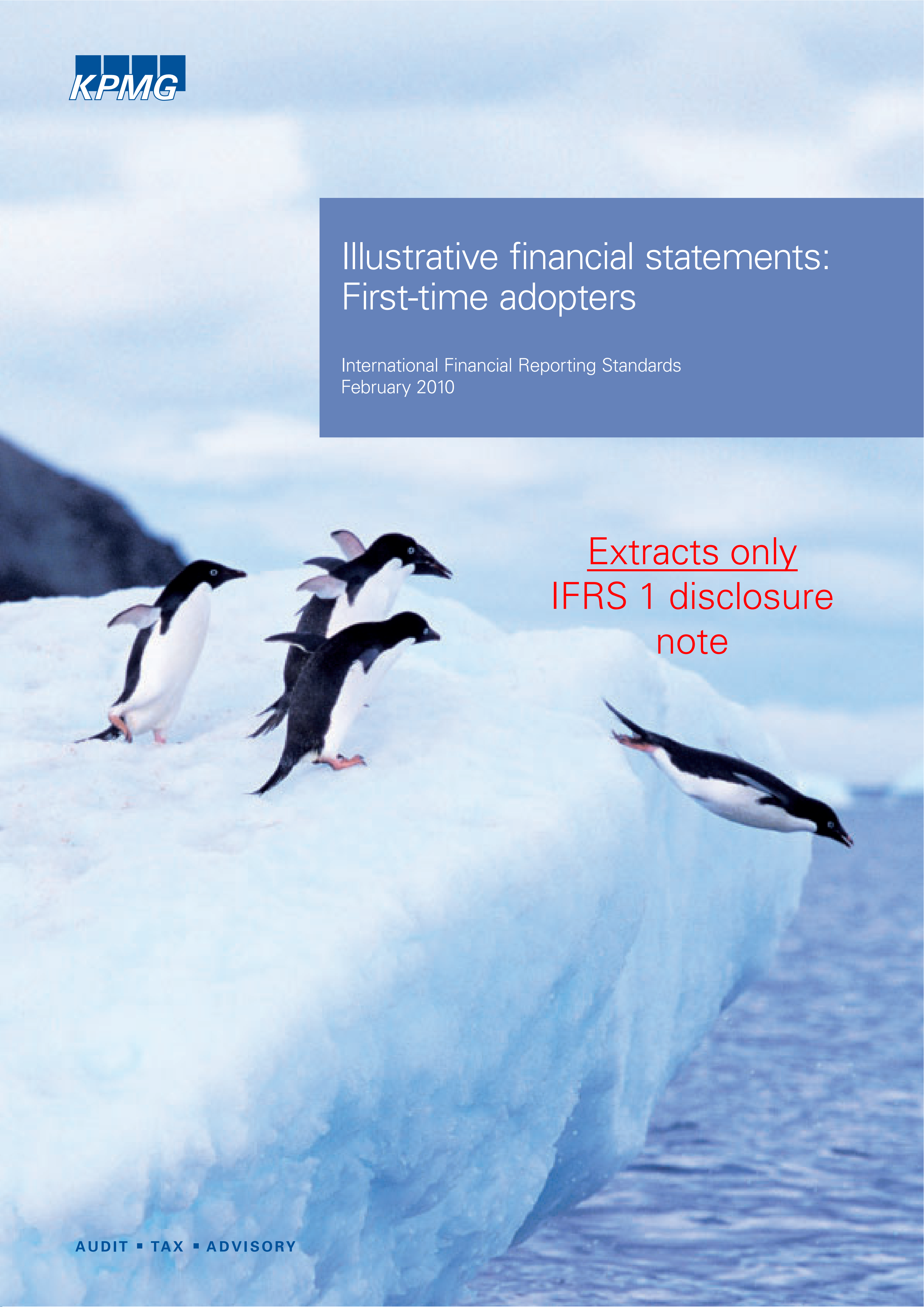
We would like to acknowledge Alok Gulati as a contributor to this guide.

KPMG.com.au

October 2022

Illustrative financial statements: First-time adopters

International Financial Reporting Standards
February 2010



Extracts only
IFRS 1 disclosure note

AUDIT ▪ TAX ▪ ADVISORY

About this publication

Content

The purpose of this publication is to assist you in preparing your first financial statements in accordance with International Financial Reporting Standards (IFRSs). It illustrates one possible format for full financial statements, based on a fictitious multinational corporation involved in general business and adopting IFRSs as its primary basis of accounting for the year ending 31 December 2010. IFRS 1 *First-time Adoption of IFRSs* has been applied in making the transition from previous GAAP to IFRSs.

This publication is based on standards and interpretations that have been issued by the International Accounting Standards Board (IASB) by 31 January 2010 which would be effective for a first-time adopter of IFRSs with a first annual IFRS reporting date of 31 December 2010. Therefore this publication includes, for example, guidance on the revised version of IFRS 3 *Business Combinations* (2008), amended IAS 27 *Consolidated and Separate Financial Statements* (2008), and the amendments to IFRS 1 *Additional Exemptions for First-time Adopters* published in July 2009. In addition the *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* published in January 2010 was early adopted in these financial statements.

In the case of IFRS 1, a number of implementation choices exist and only one possible combination is illustrated. The publication does not repeat all of the requirements of IFRS 1 and should be read in conjunction with the standard and related implementation guidance, as well as our publication *IFRS Handbook: First-time adoption of IFRS*. A list of the standards and interpretations that comprise IFRSs is contained in Appendix III.

When preparing financial statements in accordance with IFRSs, an entity should have regard to its local legal and regulatory requirements. These illustrative financial statements do not consider any requirements of a particular jurisdiction. For example, IFRSs do not require the presentation of separate financial statements for the parent entity, and these illustrative financial statements include only consolidated financial statements. However, in many jurisdictions parent financial statements will be required to meet legal or regulatory requirements.

While these illustrative financial statements are valuable in understanding international reporting requirements effective for a reporting date of 31 December 2010, these illustrative financial statements should not be used as a substitute for referring to the standards and interpretations themselves, particularly when a specific requirement is not addressed in this publication or when there is uncertainty regarding the correct interpretation of an IFRS.

References

The illustrative financial statements are contained on the odd-numbered pages of this publication. The even-numbered pages contain explanatory comments and notes on the disclosure requirements of IFRSs. The illustrative examples, together with the explanatory notes, however, are not intended to be seen as a complete and exhaustive summary of all disclosure requirements that are applicable under IFRSs. For an overview of all disclosure requirements that are applicable under IFRSs, see our publication *IFRS Disclosure Checklist*.

To the left of each item disclosed, a reference to the relevant standard is provided; generally the references relate only to disclosure requirements. The illustrative financial statements also include references to our publication *Insights into IFRS*.

Acknowledgements

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

We would like to acknowledge the principal contributors to this publication. Those contributors include Heath Preston, Julie Santoro, Hirotaka Tanaka and Sanel Tomlinson of the KPMG International Standards Group.

Other KPMG publications

We have a range of publications that can assist you further, including:

- Insights into IFRS
- IFRS compared to US GAAP
- IFRS Handbooks that include extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard
- New on the Horizon publications that discuss consultation papers
- First Impression publications that discuss new pronouncements
- IFRS Practice Issues publications that discuss specific requirements of pronouncements
- Illustrative Financial Statements for annual and interim periods, and for selected industries
- Disclosure Checklist.

IFRS-related technical information is available at www.kpmgifrg.com.

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As a global network of member firms with experience in more than 1,500 IFRS convergence projects around the world, we can help ensure that the issues are identified early, and can share leading practices to help avoid the many pitfalls of such projects. KPMG firms have extensive experience and the capabilities needed to support you through your IFRS assessment and conversion process. Our global network of specialists can advise you on your IFRS conversion process, including training company personnel and transitioning financial reporting processes. We are committed to providing a uniform approach to deliver consistent, high-quality services for our clients across geographies.

Our approach comprises four key workstreams:

- Accounting and reporting
- Business impact
- Systems, processes and controls
- People.

For further assistance, please get in touch with your usual KPMG contact.

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.23*	IFRS 1 requires an entity to provide extensive disclosures to explain how the transition from previous GAAP to IFRSs affected the reported financial position, financial performance and cash flows of the entity.
	IFRS 1.24, 25	An entity is required to disclose the following reconciliation in its first annual IFRS financial statements: • reconciliations of its equity reported under previous GAAP to its equity under IFRSs at: – the date of transition (1 January 2009 in these illustrative financial statements); and – the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP (31 December 2009 in these illustrative financial statements); and • reconciliation of total comprehensive income reported under previous GAAP for the latest period in the entity's most recent annual financial statements (31 December 2009 in these illustrative financial statements) to its total comprehensive income reported under IFRSs. The appropriate starting point for this reconciliation should be total comprehensive income under previous GAAP for the same period; however if the entity did not report such an amount, then the starting point should be profit or loss under previous GAAP.
	IFRS 1.25	IFRS 1 does not specify the format of the required reconciliations; rather the reconciliations should disclose the material adjustments made to amounts reported under previous GAAP in order to determine the corresponding amounts presented under IFRSs, together with sufficient explanations of the reconciling items. In our view, it is not sufficient to include a cross reference to previously published disclosures of the impact of the transition to IFRSs in the first annual IFRS financial statements. A reference to previously published additional voluntary information (e.g. a more detailed analysis) is permitted, but should not call into question whether the information in the financial statements complies fully with IFRSs or the level of assurance provided on the previously published additional information. This issue is discussed in our publication *Insights into IFRS* (6.1.1370.50).
	IFRS 1.25	An entity that presented a statement of cash flows under previous GAAP also explains any material adjustments as compared to its IFRS statement of cash flow for the same period.
	IFRS 1.26	If, as part of an entity's transition to IFRSs, an entity becomes aware of errors made under previous GAAP, then the correction of such errors should be identified and disclosed separately in the reconciliations. Some entities may have been required to prepare only separate (i.e. unconsolidated) financial statements under previous GAAP, but under IFRSs are required to prepare consolidated financial statements. In our view, the non-preparation of consolidated financial statements is not a prior period error. We believe that amounts reported under previous GAAP are those of the separate financial statements of the parent, and IFRS 1 treats the transition to IFRSs of an entity in its separate financial statements as a different transition from the same entity's transition in its consolidated financial statements. In our view, if there is no relevant previous GAAP financial statements from which the entity is transitioning, then no reconciliations in the consolidated first-time adoption IFRSs to the previous GAAP separate financial statements are required. This issue is discussed in our publication *Insights into IFRS* (6.1.1370.60).
	IFRS 1.27	The 2009/2010 Improvements ED proposes to amend IFRS 1 to provide guidance about accounting policy changes and changes in the use of the exemptions in IFRS 1 that occur during the period covered by the first IFRS financial statements (in the years ending 31 December 2009 and 2010 in these illustrative financial statements). The ED proposes that such changes be addressed in the explanation of the effects of the transition from previous GAAP to IFRSs, and that the reconciliations from previous GAAP to IFRSs included in the previous interim financial information be updated for those changes.

Reference

Notes to the consolidated financial statements

IFRS 1.23-28

42. Explanation of transition to IFRSs[1]

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2010, the comparative information presented in these financial statements for the year ended 31 December 2009 and in the preparation of an opening IFRS statement of financial position at 1 January 2009 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with [country] GAAP (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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Reference Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Reconciliation of equity

In thousands of euro	***Note***	**Previous GAAP**	**Effect of transition to IFRSs**	**IFRSs**	**Previous GAAP**	**Effect of transition to IFRSs**	**IFRSs**
		1 January 2009			**31 December 2009**		
Assets							
Property, plant and equipment	*b, h, q*	33,185	1,752	34,937	29,353	1,696	31,049
Intangible assets	*a, b, c, e, f*	4,384	1,045	5,429	3,743	918	4,661
Biological assets	*j*	7,749	321	8,070	8,345	371	8,716
Investment property	*g*	602	348	950	602	448	1,050
Investments in equity accounted investees		1,140	-	1,140	1,558	-	1,558
Other investments, including derivatives:		3,132	80	3,212	3,336	189	3,525
Changes in accounting policies	*k, l*		100			209	
Prior year restatement	*x*		(20)			(20)	
Deferred tax assets	*v*	1,503	399	1,902	856	520	1,376
Employee benefits	*n, o*	937	(350)	587	786	(335)	451
Total non-current assets		52,632	3,595	56,227	48,579	3,807	52,386
Inventories	*i*	12,613	103	12,716	11,995	124	12,119
Biological assets		402	-	402	140	-	140
Other investments, including derivatives		821	-	821	1,032	-	1,032
Current tax assets		90	-	90	228	-	228
Trade and other receivables	*m*	15,306	1,005	16,311	17,999	-	17,999
Prepayments		780	-	780	1,200	-	1,200
Cash and cash equivalents		2,529	-	2,529	1,850	-	1,850
Total current assets		32,541	1,108	33,649	34,444	124	34,568
Total assets		85,173	4,703	89,876	83,023	3,931	86,954

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42. Explanation of transition to IFRSs (continued)
Reconciliation of equity (continued)

In thousands of euro	*Note*	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs
		1 January 2009			31 December 2009		
Equity							
Share capital		14,550	-	14,550	14,550	-	14,550
Share premium		3,500	-	3,500	3,500	-	3,500
Reserves	*d, k, t*	1,009	558	451	1,083	(505)	578
Retained earnings		8,828	1,596	10,424	13,682	195	13,877
Changes in accounting policies	*w*		1,609			208	
Prior year restatements	*x*		(13)			(13)	
Total equity attributable to equity holders of the Company		27,887	1,038	28,925	32,815	(310)	32,505
Non-controlling interest		601	-	601	842	-	842
Total equity		28,488	1,038	29,526	33,657	(310)	33,347
Liabilities							
Loans and borrowings	*h, m*	21,419	2,059	23,478	18,540	666	19,206
Derivatives		-	-	-	5	-	5
Employee benefits	*s*	174	30	204	181	380	561
Deferred income	*p*	-	-	-	-	1,462	1,462
Provisions	*q*	50	632	682	100	900	1,000
Deferred tax liabilities		797	639	1,436	1,102	465	1,567
Changes in accounting policies	*v*		646			472	
Prior year restatements	*x*		(7)			(7)	
Total non-current liabilities		22,440	3,360	25,800	19,928	3,873	23,801
Bank overdraft		303	-	303	282	-	282
Loans and borrowings		2,017	-	2,017	4,386	-	4,386
Trade and other payables, including derivatives		30,627	-	30,627	24,370	-	24,370
Deferred income	*p*	93	110	203	-	168	168
Provisions	*r*	1,205	195	1,400	400	200	600
Total current liabilities		34,245	305	34,550	29,438	368	29,806
Total liabilities		56,685	3,665	60,350	49,366	4,241	53,607
Total liabilities and equity		85,173	4,703	89,876	83,023	3,931	86,954

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Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the year ended 31 December 2009

In thousands of euro	*Note*	Previous GAAP	Effect of transition to IFRSs	IFRSs
Continuing operations				
Revenue	*p*	98,156	(1,520)	96,636
Cost of sales	*a, b, e, h, i, l, n, o, q*	(56,412)	226	(56,186)
Gross profit		41,744	(1,294)	40,450
Other income	*g, j, u*	752	(437)	315
Distribution expenses	*h, n, o*	(18,106)	94	(18,012)
Administrative expenses	*h, n, o, q, s*	(14,872)	(397)	(15,269)
Research and development expenses	*f*	(515)	(182)	(697)
Results from operating activities		9,003	(2,216)	6,787
Finance income	*l*	460	20	480
Finance costs	*c, h, m, q, r*	(1,563)	(113)	(1,676)
Net finance costs		(1,103)	(93)	(1,196)
Share of profit of equity accounted investees (net of income tax)	*u*	-	587	587
Profit before income tax		7,900	(1,722)	6,178
Income tax expense	*v*	(2,122)	322	(1,800)
Profit from continuing operation		5,778	(1,400)	4,378
Discontinued operation				
Loss from discontinued operation (net of income tax)		(422)	-	(422)
Profit for the period		5,356	(1,400)	3,956
Other comprehensive income				
Foreign currency translation differences for foreign operations		330	-	330
Net loss on hedge of net investment in foreign operation		(8)	-	(8)
Effective portion of changes in fair value of cash flow hedges		77	-	77
Net change in fair value of cash flow hedges transferred to profit or loss		(11)	-	(11)
Net change in fair value of available-for-sale financial assets	*k*	-	94	94
Defined benefit plan actuarial gains (losses)	*o*	-	(15)	(15)
Income tax on other comprehensive income	*v*	(22)	(26)	(48)
Other comprehensive income for the period, net of income tax		366	53	419
Total comprehensive income for the period		5,722	(1,347)	4,375

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.25*	If an entity presented a statement of cash flows under previous GAAP, then it also should explain the material adjustments to the statement of cash flows.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the year ended 31 December 2009 (continued)

In thousands of euro	Previous GAAP	Effect of transition to IFRSs	IFRSs
Profit attributable to:			
Owners of the Company	5,137	(1,400)	3,737
Non-controlling interest	219	-	219
Profit for the period	5,356	(1,400)	3,956
Total comprehensive income attributable to:			
Owners of the Company	5,481	(1,347)	4,134
Non-controlling interest	241	-	241
Total comprehensive income for the period	5,722	(1,347)	4,375
Earnings per share			
Basic earnings per share (euro)	1.61	(0.53)	1.08
Diluted earnings per share (euro)	1.60	(0.53)	1.07
Continuing operations			
Basic earnings per share (euro)	1.75	(0.53)	1.22
Diluted earnings per share (euro)	1.74	(0.53)	1.21

Material adjustments to the statement of cash flows for 2009[1]

IFRS 1.25

Bank overdrafts of €282 thousand that are repayable on demand and form an integral part of the Group's cash management were classified as financing cash flows under previous GAAP. These overdrafts were reclassified as cash and cash equivalents under IFRSs. There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous GAAP.

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Index to the notes to the reconciliations

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.C1*	At the date of transition, an entity may elect not to restate business combinations that occurred before the date of transition. If the entity restates any business combinations that occurred before the date of transition, then it restates all later business combinations, and also applies IAS 27 (2008) from that same date.
	IFRS 1.C1	For business combinations that occurred before the date of transition, entities have the following options: • restate all business combinations; • restate all business combinations that occurred after a particular date of the entity's choosing but before the date of transition; or • do not restate any business combinations prior to the date of transition.
	IFRS 1.C5	The business combinations exemption applies equally to acquisitions of investments in associates and interests in joint ventures that occurred prior to the date of transition. If an entity chooses to restate business combinations that occurred after a particular date prior to the date of transition, then that cut-off date applies equally to acquisitions of investments in associates and interests in joint ventures.
	IFRS 1.C4g(ii)	Goodwill acquired in an unrestated business combination must be tested for impairment at the date of transition in accordance with IFRSs, with any resulting impairment loss recognised directly in retained earnings. This mandatory impairment testing is required regardless of whether there is any indication that the goodwill may be impaired.
2.		In this publication we present mini-reconciliations of the adjustments for ease of reading. This is not a requirement of IFRS 1 and other methods of presentation are possible.
3.	*IFRS 1.24(c)*	If the entity recognises or reverses any impairment losses for the first time in preparing its opening IFRS statement of financial position, then it must comply with the disclosure requirements of IAS 36 in respect of any impairment losses or reversals recognised.
	IFRS 1.IG39	An entity applies IAS 36 in: • determining whether any impairment loss exists at the date of transition; and • measuring any impairment loss that exists at that date, and reversing any impairment loss that no longer exists at that date.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations

(a) The Group elected to apply IFRSs retrospectively to all business combinations that occurred on or after 1 January 2008.[1] This required acquisition-related costs of €300 thousand incurred in those business combinations to be expensed; a contingent liability relating to legal claims to be recognised at fair value of €50 thousand; and previous amortisation of goodwill to be reversed (€25 thousand relating to the 2008 year and €25 thousand relating to the 2009 year). In addition, and as a condition under IFRS 1 for applying this exemption, goodwill relating to business combinations that occurred prior to 1 January 2008 was tested for impairment even though no impairment indicators were identified. No impairment existed at the date of transition.

The impact arising from the change is summarised as follows:[2]

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Cost of sales:		
Reversal of goodwill amortisation		(25)
Adjustment before income tax		(25)
Consolidated statement of financial position		
Goodwill	(225)	(200)
Provisions (contingent liability)	(50)	(50)
Related tax effect	99	99
Adjustment to retained earnings	(176)	(151)

(b) As described in notes 16 and 17, during the year ended 31 December 2009, due to regulatory restrictions imposed on a new product in the American paper manufacturing and distribution division, the Group tested the related product line for impairment and recognised an impairment loss.[3] Under previous GAAP the recoverable amount was calculated on an undiscounted basis.

Under IFRSs the recoverable amount of the cash-generating unit (the production line that produces the product) was estimated based on its value in use, which requires estimated future cash flows to be discounted. The effect was to decrease property, plant and equipment by €25 thousand and development costs by €10 thousand at 31 December 2009, and to increase the impairment loss (cost of sales) by €35 thousand for the year ended 31 December 2009.

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Cost of sales:		
Recognised impairment loss		35
Adjustment before income tax		35
Consolidated statement of financial position		
Property, plant and equipment	-	(25)
Intangible assets:		
Development costs	-	(10)
Related tax effect	-	12
Adjustment to retained earnings	-	(23)

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.D23*	An entity may apply the transitional requirements of IAS 23. This allows the entity to capitalise borrowing costs in respect of qualifying assets for which the commencement date for capitalisation is on or after the later of 1 January 2009 and the date of transition; or an earlier date chosen by the entity.
2.	*IFRS 1.D5*	An entity may elect to measure an item of property, plant and equipment at the date of transition at its fair value and use that fair value as its deemed cost at that date.
	IFRS 1.D6	An entity may elect to use a previous GAAP revaluation of an item of property, plant and equipment at or before the date of transition as deemed cost at the date of the revaluation, provided the revaluation was, at the date of the revaluation, broadly comparable to: • fair value; or • cost or depreciated cost under IFRSs adjusted to reflect, for example, changes in a general or specific price index.
	IFRS 1.D8	An entity also may use an event-driven fair value as a deemed cost when, under previous GAAP, some or all of its assets and liabilities have been fair valued at one particular date because of an event such as a privatisation or initial public offering. This exemption is not restricted to determining a deemed cost for all items of property, plant and equipment but may be applied to all individual assets and liabilities that were part of the remeasurement event.
3.	*IFRS 1.30*	If an entity uses fair value in its opening IFRS statement of financial position as deemed cost for an item of property, plant and equipment, then the entity's first IFRS financial statements discloses, for each line item in the opening IFRS statement of financial position: • the aggregate of those fair values; and • the aggregate adjustment to the carrying amounts reported under previous GAAP.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(c) Under previous GAAP the Group expensed borrowing costs as incurred. At the date of transition, the Group elected to capitalise borrowing costs only in respect of qualifying assets for which the commencement date for capitalisation was on or after the date of transition.[1]

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Finance costs		(20)
Adjustment before income tax		(20)
Consolidated statement of financial position		
Intangible assets:		
Development cost	-	20
Related tax effect		(7)
Adjustment to retained earnings	-	(13)

(d) At 31 December 2007 the Group revalued land under previous GAAP. On transition to IFRSs the Group elected to apply the optional exemption to use that previous revaluation as deemed cost under IFRSs. The revaluation reserve of €275 thousand at 1 January 2009 and 31 December 2009 was reclassified to retained earnings.[2] Except for the reclassification this had no impact on the financial statements.

The aggregate fair value of the land at 31 December 2007 was determined to be €1,200 thousand compared to the then carrying amount of €925 thousand under previous GAAP.[3]

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
-		-
Adjustment before income tax		-
Consolidated statement of financial position		
Revaluation reserve	(275)	(275)
Related taxation effect	-	-
Adjustment to retained earnings	(275)	(275)

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.C4*	The balance of goodwill at the date of transition, arising from an unrestated business combination, is adjusted only in respect of the following: • to recognise separately certain intangible assets that were subsumed within goodwill under previous GAAP, including any consequential effect on deferred tax and non-controlling interests; • to subsume within goodwill certain intangible assets that were recognised separately under previous GAAP, including any consequential effect on deferred tax and non-controlling interests; • to correct any errors discovered upon the transition to IFRSs; and • to recognise any impairment loss on goodwill at the date of transition.
2.	*IFRS 1.IG44*	An entity recognises in its opening IFRS statement of financial position all internally generated intangible assets that qualify for recognition under IAS 38; similarly, it derecognises internally generated intangible assets that do not qualify for recognition. In accordance with IAS 38 expenditure is capitalised only from the date that the recognition criteria in the standard are met, i.e. prospectively; these criteria cannot be assessed using the benefit of hindsight. Therefore, in order to capitalise costs at the date of transition that were expensed under previous GAAP, an entity is required to have met the criteria for capitalisation at the time that the costs were incurred, and a system was in place that measured such costs reliably. This issue is discussed in our publication *Insights into IFRS* (6.1.390.20).

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(e) As part of the purchase accounting applied under previous GAAP for a transaction that occurred before 1 January 2008 (i.e. an unrestated past business combination), a separate intangible asset relating to the acquiree's "market share" was recognised. Market share is not recognised as a separate asset under IFRSs. Accordingly the carrying amount of the asset at date of transition has been adjusted against goodwill and amortisation for the comparative year was reversed.[1]

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Cost of sales		(20)
Adjustment before income tax		(20)
Consolidated statement of financial position		
Goodwill	80	80
Intangible assets	(120)	(100)
Related tax effect	40	33
Adjustment to retained earnings	-	(13)

(f) Development costs of €1,310 thousand at the date of transition and €495 thousand relating to the year ended 31 December 2009 that qualify for recognition as an intangible asset under IFRSs were expensed under previous GAAP. These amounts are recognised under IFRSs at the date of transition and as additions in 2009, respectively.[2]

This also leads to an adjustment to the amortisation of development cost of €677 thousand (presented within research and development expenses) for the year ended 31 December 2009.

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Research and development expenses:		
Capitalisation of development costs		(495)
Amortisation of development costs		677
Adjustment before income tax		182
Consolidated statement of financial position		
Intangible assets:		
Development costs	1,310	1,128
Related tax effect	(432)	(372)
Adjustment to retained earnings	878	756

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.IG14, IAS 17.13*	At the date of transition, an entity classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease.
	IFRS 1.IG204	IAS 17 defines a lease as an agreement that conveys the right to use an asset for a specific period in return for payment or a series of payments. IFRIC 4 provides guidance on identifying when an arrangement, comprising a transaction or series of related transactions, is or contains a lease.
	IFRS 1.D9	IFRS 1 includes an optional exemption that permits an entity to apply the transitional requirements in IFRIC 4. If the entity elects the optional exemption, then it assesses arrangements existing at the date of transition based on the facts and circumstances existing at that date.
	IFRS 1.D9A, IG206	IFRS 1 includes a further optional exemption that if an entity made the same determination of whether an arrangement contains a lease under previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, then the entity need not reassess that determination for such arrangements when it adopts IFRSs. For an entity to have made the same determination under previous GAAP as that under IFRSs, the determination is required to give the same outcome as applying IAS 17 and IFRIC 4.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(g) Consistent with the Group's accounting policy, investment property has been recognised at fair value at the date of transition. Under previous GAAP investment property was measured on a cost basis.

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Other income		(100)
Adjustment before income tax		(100)
Consolidated statement of financial position		
Investment property	348	448
Related tax effect	(115)	(148)
Adjustment to retained earnings	233	300

(h) Under previous GAAP certain leases were classified as operating leases based on the fact that legal title did not pass by the end of the lease. Under IFRSs those leases are classified as finance leases and the related assets recognised in the statement of financial position of the Group.[1]

The effects are to increase property, plant and equipment, loans and borrowings and the related depreciation charge (€240 thousand for the year ended 31 December 2009) and finance costs, and to decrease lease expense (€504 thousand for the year ended 31 December 2009).

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Cost of sales:		
Depreciation/lease expense		(212)
Distribution costs:		
Depreciation/lease expense		(84)
Administrative costs:		
Depreciation		32
Finance costs		111
Adjustment before income tax		(153)
Consolidated statement of financial position		
Property, plant and equipment	1,278	1,038
Loans and borrowings	(1,059)	(666)
Related tax effect	(72)	(123)
Adjustment to retained earnings	(147)	(249)

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Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(i) Under previous GAAP the cost of certain inventories was measured using the last-in first-out (LIFO) formula. Under IFRSs the Group has adopted a policy that measures cost on the basis of first-in first-out (FIFO).

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Cost of sales		(21)
Adjustment before income tax		(21)
Consolidated statement of financial position		
Inventories	103	124
Related tax effect	(34)	(41)
Adjustment to retained earnings	69	83

(j) Under IFRSs biological assets are measured at fair value less costs to sell. Under previous GAAP biological assets were measured at cost.

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Other income		(50)
Adjustment before income tax		(50)
Consolidated statement of financial position		
Biological assets	321	371
Related tax effect	(106)	(122)
Adjustment to retained earnings	215	249

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.D19(a), IG56(e)*	Financial assets, including non-marketable equity securities that do not fall into any of the other categories, are classified as available for sale. Also, an entity may designate, on an instrument-by-instrument basis, financial assets, other than those classified as held for trading, as available for sale at the date of transition, including a loan/receivable or a financial asset that the investor intends to hold to maturity.
2.	*IFRS 1.29*	For any financial assets or financial liabilities designated as at fair value through profit or loss and for any financial assets designated as available for sale in accordance with IFRS 1.D19, disclose: • the fair value of the financial assets or financial liabilities designated into each category at the date of designation; and • their classification and carrying amount in the previous financial statements.
3.	*IFRS 1.B4(a), IG53, IG56(c)*	Consistent with the general requirement of IAS 39 all derivatives, including embedded derivatives, are measured at fair value in the opening IFRS statement of financial position.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(k) In accordance with IFRSs, financial assets designated as available for sale have been recognised at fair value. These assets were previously carried at cost.[1]

At the date of transition, the fair value of the financial assets designated as available-for-sale financial assets is €790 thousand and their carrying amount under previous GAAP was €764 thousand.[2]

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Adjustment before income tax		-
Consolidated statement of financial position		
Other investments, including derivatives: Non-current assets	26	120
Other comprehensive income	(17)	(80)
Related tax effect	(9)	(40)
Adjustment to retained earnings	-	-

(l) Previous GAAP did not require separate identification and recognition of embedded derivatives. Under IFRSs derivatives embedded in other contracts are treated as separate assets and liabilities unless certain criteria are met. These assets and liabilities are measured at fair value and changes in fair value are recognised in profit or loss.[3]

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Cost of sales		5
Finance income		(20)
Adjustment before income tax		(15)
Consolidated statement of financial position		
Other investments, including derivatives:		
Non-current assets	74	89
Related tax effect	(24)	(29)
Adjustment to retained earnings	50	60

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.B2, B3*	An exception from applying the general requirements of IFRSs in respect of the derecognition of financial instruments at the date of transition applies to transactions that took place before 1 January 2004. Under a mandatory exception in IFRS 1, an entity applies the derecognition requirements of IFRSs prospectively to transactions occurring on or after 1 January 2004 in respect of all non-derivative financial assets and liabilities. Under this exception, the previous GAAP accounting for transfers of financial assets and liabilities before 1 January 2004 is not altered (e.g. previously derecognised assets and liabilities are not re-recognised unless a subsequent transaction requires such recognition) and therefore the opening IFRS statement of financial position is not adjusted in respect of such transactions. Notwithstanding this mandatory exception, an entity may elect to apply the derecognition requirements of IFRSs retrospectively from any date prior to 1 January 2004, provided that the information required to do this was obtained at the time of initially accounting for those transactions. This issue is discussed in our publication *Insights into IFRS* (6.1.620.40).

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(m) In 2008 the Group entered into a securitisation arrangement in respect of €1,005 thousand of receivables. Under previous GAAP this transaction was considered a sale of the receivables to the third party and the receivables were derecognised. Under IFRSs, due to the Group retaining a significant portion of the credit risk relating to the receivables, the derecognition criteria in IAS 39 are not met and the receivables are not derecognised.[1]

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Finance costs		5
Adjustment before income tax		5
Consolidated statement of financial position		
Trade and other receivables	1,005	-
Loans and borrowings	(1,000)	-
Related tax effect	(2)	-
Adjustment to retained earnings	3	-

(n) Under previous GAAP the Group's obligation in respect of employees' post-employment medical benefits was calculated based on the Group's best estimate of the amount payable at each year end. Under IFRSs the obligation is determined using the projected unit credit method, and actuarial valuations are obtained at each year end.

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Cost of sales		30
Distribution expenses		10
Administrative expenses		10
Adjustment before income tax		50
Consolidated statement of financial position		
Employee benefits	(150)	(200)
Related tax effect	50	66
Adjustment to retained earnings	(100)	(134)

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.D10 IG18*	IFRS 1 includes an optional exemption for entity's that elect to recognise actuarial gains and losses using the corridor method after the date of transition. An entity may choose to recognise all cumulative (and previously unrecognised) actuarial gains and losses in retained earnings at the date of transition, as long as the exemption is applied to all defined benefit plans, i.e. the exemption cannot be applied on a plan-by-plan basis. This avoids the need for an entity to split the cumulative actuarial gains and losses into a recognised portion and an unrecognised portion at each reporting date since the inception or acquisition of the plan. This exemption is not illustrated in this publication.
2.	*IFRS 1.IG17*	If an entity has received amounts that do not yet qualify for recognition as revenue in accordance with IAS 18 *Revenue* (e.g. the proceeds of a sale that does not qualify for revenue recognition), then the entity recognises the amounts received as a liability in its opening IFRS statement of financial position and measures that liability at the amount received.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(o) Under IFRSs the Group's accounting policy is to recognise all actuarial gains and losses in other comprehensive income. Under previous GAAP the Group recognised actuarial gains and losses in the profit or loss over the employees' remaining service period. At the date of transition, all previously unrecognised cumulative actuarial gains and losses were recognised in retained earnings and reversed in the previous year's statement of comprehensive income.[1]

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Cost of sales		(50)
Distribution expenses		(20)
Administrative expenses		(10)
Adjustment before income tax		(80)
Consolidated statement of financial position		
Employee benefits	(200)	(135)
Other comprehensive income	-	10
Related tax effect	66	45
Adjustment to retained earnings	(134)	(80)

(p) Under previous GAAP customer advances for construction work in progress were recognised as revenue when they were received. Under IFRSs amounts billed in advance of the work being undertaken are recognised as deferred income.[2]

In 2009 the Group received a government grant of €1,500 thousand, which was conditional upon the construction of a factory on a specified site. Under previous GAAP the government grant was recognised as revenue when it was received. Under IFRSs the grant is recognised as deferred income at the time of receipt, and is being amortised over the useful life of the building. The factory was not in operation during 2009.

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Revenue:		
Customer advance for construction work in progress		20
Government grant		1,500
Adjustment before income tax		1,520
Consolidated statement of financial position		
Deferred income	(110)	(1,630)
Related tax effect	36	43
Adjustment to retained earnings	(74)	(1,587)

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Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(q) As described in note 32, an obligation exists to restore certain sites for the effect of the Group's operations. Under previous GAAP the cost of rectification was expensed as incurred. In accordance with IFRSs, the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related cost, is recognised when the land is contaminated.

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Cost of sales		32
Administrative expenses		15
Finance costs		12
Adjustment before income tax		59
Consolidated statement of financial position		
Property, plant and equipment	474	683
Provisions	(632)	(900)
Related tax effect	52	71
Adjustment to retained earnings	(106)	(146)

(r) Under IFRSs provisions for loss-making executory contracts (onerous contracts) are recognised, resulting in an additional provision due to certain of the Group's distribution contracts. Such provisions were not recognised under previous GAAP.

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Finance costs		5
Adjustment before income tax		5
Consolidated statement of financial position		
Provisions	(145)	(150)
Related tax effect	48	50
Adjustment to retained earnings	(97)	(100)

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.D2, D3, IG65*	The requirements of IFRS 1 in respect of share-based payments match the transitional requirements that applied to existing users of IFRSs when IFRS 2 came into effect in 2005. An entity is required to apply IFRS 2 to: • equity instruments that were granted after 7 November 2002 that will vest after the date of transition; • liabilities arising from cash-settled share-based payment transactions that will be settled after the date of transition; and • awards that are modified on or after the date of transition, even if the original grant of the award is not accounted for in accordance with IFRS 2.
	IFRS 1.D2, D3, IG64	Additionally, an entity is encouraged, but not required, to apply IFRS 2 retrospectively to the following: • equity instruments that were granted on or before 7 November 2002, or equity instruments that were granted after 7 November 2002 that vested before the date of transition; however, such application is allowed only if the entity had publicly disclosed the fair value of such awards at the "measurement date" in accordance with IFRS 2; and • liabilities arising from cash-settled share-based payment transactions that were settled before the date of transition.
2.	*IFRS 1.D13*	Generally IAS 21 requires an entity to classify certain translation differences as a separate component of equity. However, an entity may deem the cumulative translation differences for all foreign operations to be nil at the date of transition, and reclassify any such amounts determined in accordance with previous GAAP at that date to retained earnings. When this is the case, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(s) The Group granted cash-settled share-based payments to certain employees. The Group accounted for these share-based payment arrangements by reference to their intrinsic value under previous GAAP. Under IFRSs the related liability has been adjusted to reflect the fair value of the outstanding cash-settled shared-based payments.[1]

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of comprehensive income		
Administrative expenses		350
Adjustment before income tax		350
Consolidated statement of financial position		
Employee benefits	(30)	(380)
Related tax effect	10	125
Adjustment to retained earnings	(20)	(255)

(t) In accordance with IFRS 1, the Group has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.[2]

The impact arising from the change is summarised as follows:

In thousands of euro	**1 January 2009**	**31 December 2009**
Consolidated statement of financial position		
Translation reserve	(300)	(300)
Related tax effect	-	-
Adjustment to retained earnings	(300)	(300)

(u) Under IFRSs the Group's share of profit of equity accounted investees is disclosed separately on the face of the statement of comprehensive income. Under previous GAAP this income was disclosed as other income. This reclassification had no impact on comprehensive income for the year ended 31 December 2009 or on equity as at that date.

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.11, IG5*	An entity should recognise deferred taxes on temporary differences between the carrying amount of the assets and liabilities in its opening IFRS statement of financial position and their tax bases. Generally, all adjustments to deferred tax at the date of transition are made to retained earnings, except in the following circumstances; ● If a business combination is restated, then the balance of deferred tax at the date of acquisition is determined as part of the reconstruction of the acquisition accounting. The corresponding entry is against goodwill at the date of acquisition. ● If a business combination is not restated but an intangible asset related to the acquisition is either subsumed within goodwill or is recognised separately from goodwill at the date of transition, then any related adjustment to the deferred tax also is recognised against goodwill. In our experience, typically the adjustments for deferred tax are made after the carrying amounts of the other assets and liabilities in the opening statement of financial position have been determined.

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(v) The above changes decreased (increased) the deferred tax liability as follows based on a tax rate of 33 percent:[1]

	Note	1 January 2009	31 December 2009
Business combination	*a*	99	99
Impairment of property, plant and equipment	*b*	-	12
Borrowing cost	*c*	-	(7)
Intangible assets	*e*	40	47
Development costs	*f*	(432)	(372)
Investment property	*g*	(115)	(148)
Finance leases	*h*	(72)	(123)
Inventories	*i*	(34)	(41)
Biological assets	*j*	(106)	(122)
Available-for-sale financial assets	*k*	(9)	(40)
Embedded derivative	*l*	(24)	(29)
Derecognition	*m*	(2)	-
Employee benefits	*n, o, s*	126	236
Deferred income	*p*	36	43
Provision	*q, r*	100	121
Tax losses carry forward	*v*	146	386
Set off of tax	*v*	(399)	(520)
Increase in deferred tax liability		(646)	(472)

The effect on the statement of comprehensive income for the year ended 31 December 2009 was to decrease the previously reported tax charge for the period by €322 thousand.

The adjustment in note (k) relating to the net change in fair value of available-for-sale financial assets and the adjustment in note (n) relating to the recognition of the actuarial loss in other comprehensive income, resulted in a increase in the deferred tax liability of €26 thousand with the related tax charged to other comprehensive income for the year ended 31 December 2009.

Under previous GAAP the Group did not recognise a deferred tax asset for the carry forward of unused tax losses. In accordance with IFRSs such losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The effect is to decrease deferred tax liabilities at 1 January 2009 by €146 thousand and 31 December 2009 by €386 thousand, and to decrease income tax expense by €240 thousand for the year ended 31 December 2009.

Unlike IFRSs, previous GAAP required deferred tax assets and deferred tax liabilities to be offset regardless of whether they were related to income taxes levied by the same taxation authority. The effect of the change is to increase deferred tax assets and deferred tax liabilities by €399 thousand at 1 January 2009 and €520 thousand at 31 December 2009.

Note	*Reference*	**Explanatory note**
1.	*IFRS 1.26*	If, as part of an entity's transition to IFRSs, an entity becomes aware of errors made under previous GAAP, then the correction of such errors should be identified and disclosed separately in the reconciliations. In our view, when depreciation/amortisation recognised in accordance with previous GAAP is not consistent with a method of depreciation/amortisation permitted under IFRSs, disclosure of the adjustment to cumulative depreciation/amortisation does not result in disclosure of an error; this is because the depreciation/amortisation recognised was in accordance with previous GAAP. Some entities may have been required to prepare only separate (i.e. unconsolidated) financial statements under previous GAAP, but under IFRSs are required to prepare consolidated financial statements. In our view, the non-preparation of consolidated financial statements is not a prior period error. We believe that amounts reported under previous GAAP are those of the separate financial statements of the parent, and IFRS 1 treats the transition to IFRSs of an entity in its separate financial statements as a different transition from the same entity's transition in its consolidated financial statements. In our view, if there is no relevant previous GAAP financial statements from which the entity is transitioning, then no reconciliations in the consolidated first-time adoption IFRSs to the previous GAAP separate financial statements are required. This issue is discussed in our publication *Insights into IFRS* (6.1.1370.60).

Reference

Notes to the consolidated financial statements

42. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(w) The above changes decreased (increased) retained earnings as follows:

	Note	1 January 2009	31 December 2009
Business combination	*a*	176	151
Impairment of property, plant and equipment	*b*	-	23
Borrowing cost	*c*	-	(13)
Reclassification of revaluation reserves	*d*	(275)	(275)
Intangible assets	*e*	-	(13)
Development costs	*f*	(878)	(756)
Investment property	*g*	(233)	(300)
Finance leases	*h*	(147)	(249)
Inventories	*i*	(69)	(83)
Biological assets	*j*	(215)	(249)
Embedded derivative	*l*	(50)	(60)
Derecognition	*m*	(3)	-
Employee benefits	*n, o, s*	254	469
Deferred income	*p*	74	1,587
Provision	*q, r*	203	246
Reclassification of reserve	*t*	(300)	(300)
Deferred tax	*v*	(146)	(386)
Increase in retained earnings		(1,609)	(208)

(x) The Company under its previous GAAP, incorrectly capitalised certain costs relating to investments. This resulted in an adjustment to the carrying amount of investments of €20 thousand that is not the result of a change in accounting policy.[1]

The impact arising from the change is summarised as follows:

In thousands of euro	1 January 2009	31 December 2009
Consolidated statement of comprehensive income		
Adjustment before income tax		-
Consolidated statement of financial position		
Other investments, including derivatives	(20)	(20)
Related tax effect	7	7
Adjustment to retained earnings	(13)	(13)