Removal of Special Purpose Financial Statements

Recent changes to Australian Accounting Standards ("AAS") will mean that many for-profit entities have to prepare General Purpose Financial Statements ("GPFS") for the first time, and are no longer able to prepare Special Purpose Financial Statements ("SPFS"). In this article, we explain who is affected, and what the impact will be on those entities.

The changes were released by the Australian Accounting Standards Board in the form of:

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

Key changes

The new requirements will be effective for annual periods beginning **on or after 1 July 2021** and include the following key changes:

- Removal of SPFS, where certain private sector for-profit entities will no longer be able to prepare SPFS and will instead be required to prepare GPFS.
- Removal of the "reporting entity concept" for for-profit entities.
- New Simplified Disclosures will replace the existing Reduced Disclosure Requirements (RDR) for Tier 2 entities. Entities permitted to apply Tier 2 requirements have not changed and include:
  - for-profit private sector entities that do not have public accountability;
  - all not-for-profit private sector entities; and
  - public sector entities other than the Australian Government and State, Territory and Local Governments.
- Ultimate Australian parent companies will be required to prepare consolidated financial statements (except in limited circumstances). The exemption that previously allowed non-reporting entities, that were the ultimate parent entity in Australia, prepare stand-alone financial statements without consolidating subsidiaries has been removed.

Who will have to prepare GPFS for the first time

The new requirements will only apply to for-profit private sector entities where:

- The Corporations Act or other legislation requires them to prepare financial statements that comply with either "Australian Accounting Standards" or "Accounting Standards".
  or
- Their constituting document or another non-legislative document requires them to prepare financial statements that comply with "Australian Accounting Standards", and only where that document is created or amended **on or after 1 July 2021**.

Examples of entities that will be affected

1

Entities required to prepare financial statements under Part 2M.3 of the Corporations Act 2001.

Examples include:

- Large proprietary companies, including grandfathered entities (unless they have obtained relief from the requirement to prepare annual financial reports via *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785)*
- Unlisted public companies (other than companies limited by guarantee)
- Small proprietary companies:
  - with crowd-sourced funding; or
  - subject to shareholder direction or ASIC direction which specifies that AAS are required.
- Small foreign-controlled companies (unless they have relief in accordance with *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204)*
  Note: If the small foreign-controlled company is a Country by Country reporting entity as defined by Australian Tax Legislation, although they may have relief under 2017/204 from preparing GPFS under Corporations Act, they may still need to prepare GPFS for the ATO.
- Australian Financial Services Licence holders

2

Entities required by legislation to prepare financial statements that comply with "Australian Accounting Standards" or "Accounting Standards".

Examples include:

- Co-operatives
- Incorporated associations
- Higher education providers

3

Any entity, including small proprietary companies, private trusts, self managed superannuation funds and partnerships, where the constituting document or another non-legislative document specifically requires:

- preparation of financial statements in accordance with "Australian Accounting Standards"; and
- the relevant document was created or amended on or after 1 July 2021.

Examples of constituting and non–legislative documents include:

- Company constitutions
- Trust and SMSF deeds
- Partnership agreements, Shareholder agreements, Unitholder agreements
- Loan Agreements and other contracts with third parties

4

Other entities that elect to prepare GPFS in accordance with the revised conceptual framework.

Definition of Large Proprietary Company

Companies that are defined as 'large' will be required to prepare GPFS under the Corporations Act as described above. Determining whether a company is a large proprietary company requires considering certain criteria on a **consolidated basis** for the company and the entities it controls.

A proprietary company is defined as 'large' for a financial year if it satisfies **at least two** of the below criteria:

- the **consolidated revenue** for the financial year of the company and the entities it controls is $50 million or more;
- the value of the **consolidated gross assets** at the end of the financial year of the company and any entities it controls is $25 million or more; and
- the company and any entities it controls have 100 or more employees at the end of the financial year.

Control, consolidated revenue and consolidated gross assets need to be determined and calculated in accordance with all Australian Accounting Standards (AAS) in force for the financial year of some or all of the companies concerned. This can impact the determination considerably, particularly when compared to the company's non-AAS compliant reporting.

If the company does not meet at least two of the above criteria, it is classified as a small proprietary company.

Examples of entities that will not be affected

1 Entities not required to prepare financial statements in accordance with "Australian Accounting Standards" or "Accounting Standards" under legislation. Common examples include small proprietary companies, private trusts, SMSFs and private partnerships, however some exceptions apply. Requirements in constituting and other documents also need to be considered.

2 Entities required by their constituting document or another non-legislative document to prepare financial statements that:

- comply with "Australian Accounting Standards", where the document was created or amended **before 1 July 2021**; or
- comply with "Accounting Standards", "Generally Accepted Accounting Principles" or other terminology that is not specifically "Australian Accounting Standards".

3 Not-for-profit entities that prepare SPFS.

4 Entities who will continue to prepare Tier 1 GPFS.

Early adoption (pre 1 July 2021)

Entities can choose to early adopt the new requirements **before 1 July 2021** (eg for year ending 30 June 2020). Early adoption will provide transitional relief from:

- restating comparative information; and
- providing comparative information not previously disclosed in notes.

In addition, early adoption may help reduce the cost and impact of transition, by spreading the change over a 2 year period, and providing additional time to improve internal systems and processes if required.

However, some entities may be required to prepare consolidated financial statements for the first time and the impact of this should also be considered.

Impact on Financial Statements

Entities that are affected by the Removal of SPFS changes will be required to prepare Tier 2 GPFS in compliance with Simplified Disclosure requirements. This will result in substantial increase in costs of compliance. Key changes will include:

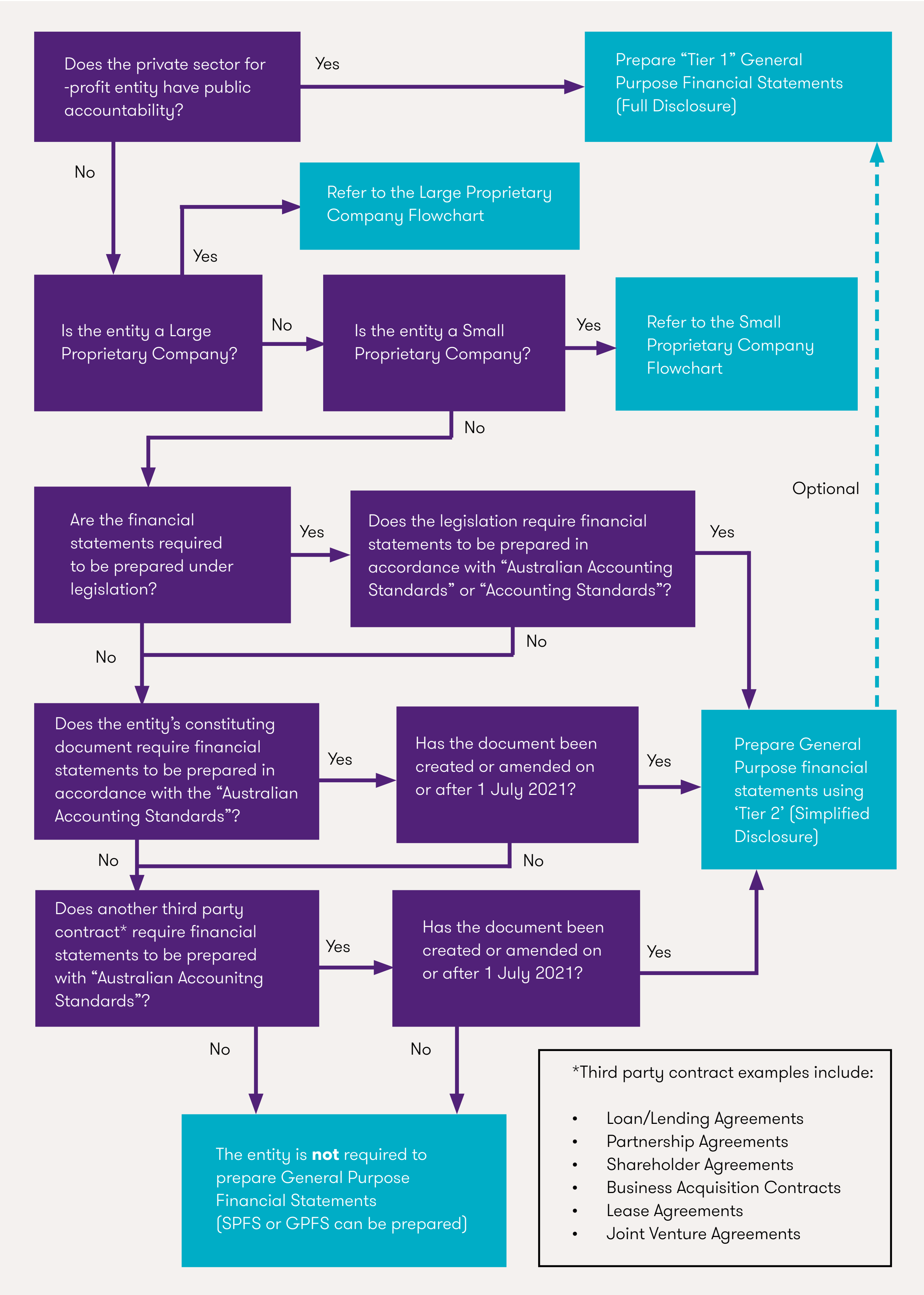
1 Complying with full recognition and measurement requirements of AAS, and preparing a significant number of new disclosures in their financial statements. Some of the more significant impacts are included in the following table.

Full recognition and measurement requirements
AASB 3: Business Combinations AASB 9: Financial Instruments AASB 10: Consolidated Financial Statements AASB 13: Fair Value Measurement AASB 15: Revenue from Contracts with Customers AASB 16: Leases AASB 128: Investments in Associates and Joint Ventures
Significant increased disclosures
Revenue Income Tax Financial Instruments Non-financial assets and liabilities Lessee disclosures Related party transactions.

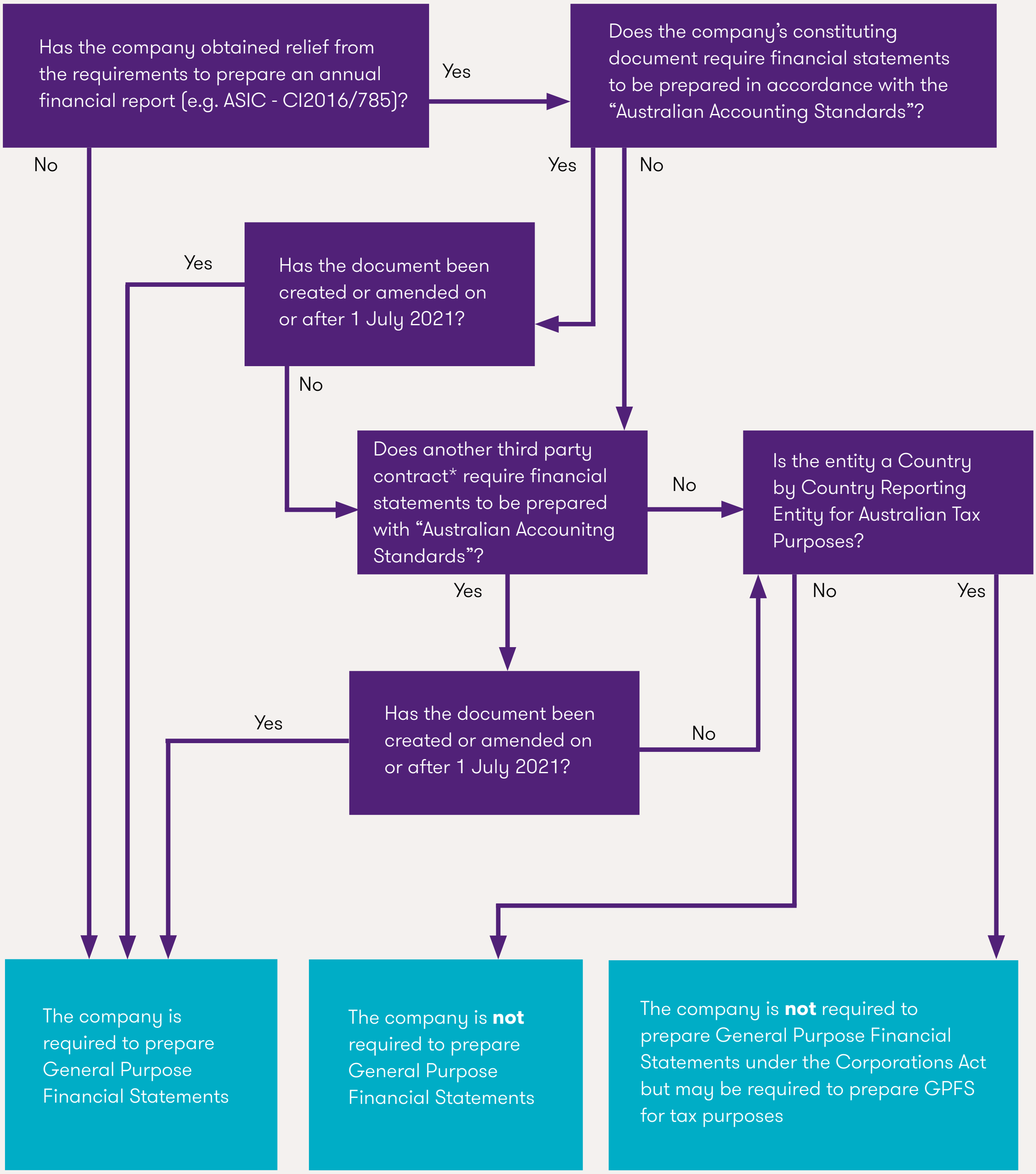
2 Where applicable, entities that are now required to consolidate their financial statements or apply equity accounting will have additional significant implications and requirements.

Flowcharts

The flowcharts below outline the decision process to determine whether private sector For-Profit entities will be required to prepare GPFS.



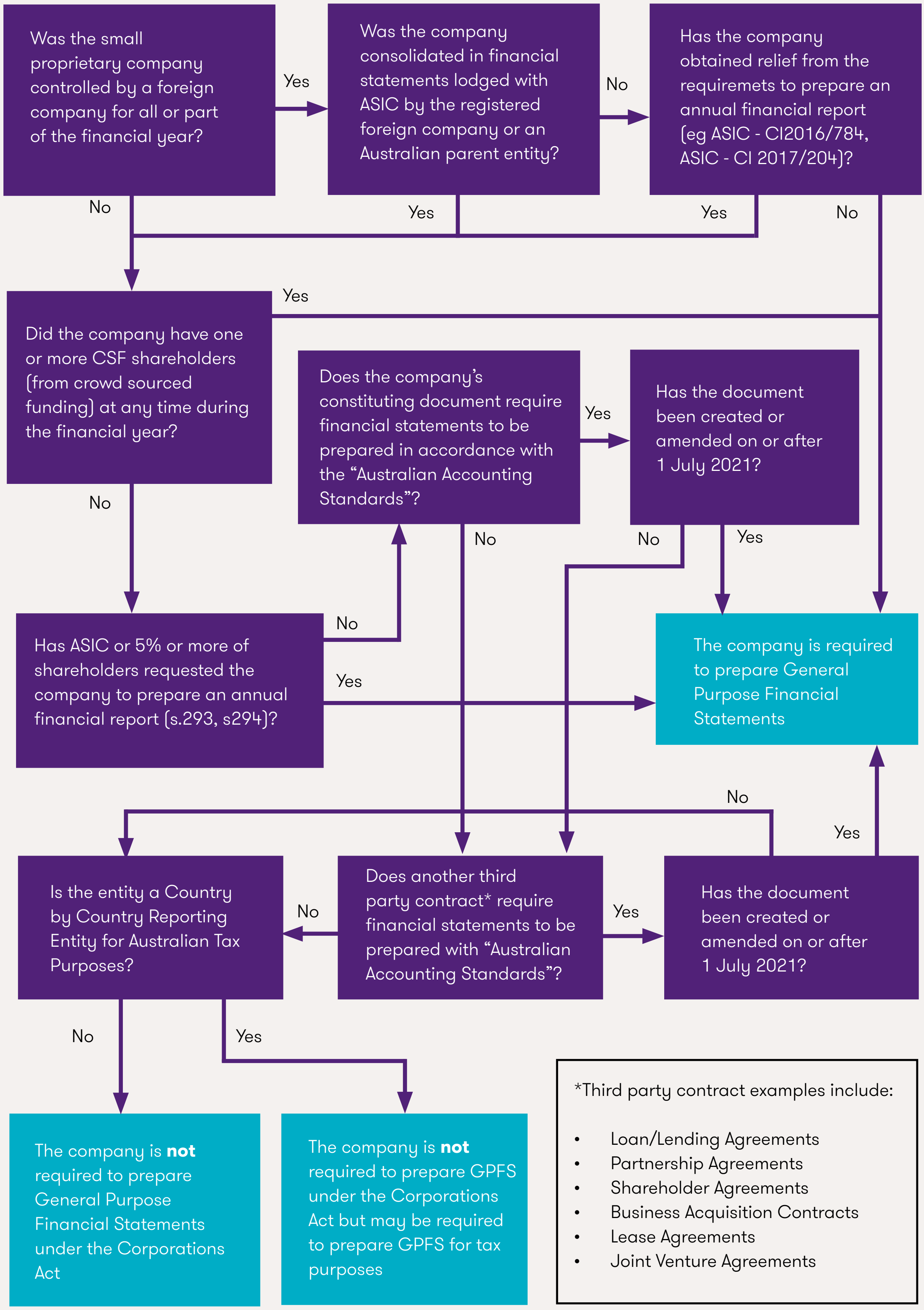
Large Proprietary Companies



*Third party contract examples include:

- Loan/Lending Agreements
- Partnership Agreements
- Shareholder Agreements
- Business Acquisition Contracts
- Lease Agreements
- Joint Venture Agreements

Small Proprietary Companies



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