AASB 2020-2: Transitioning from SPFS to GPFS

Issued 13 April 2021

What is the issue?

AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (AASB 2020-2) requires that certain Australian for-profit entities that have historically prepared special purpose financial statements (SPFS) prepare general purpose financial statements (GPFS) for reporting periods commencing on or after 1 July 2021. Upon transition, entities required by AASB 2020-2 to prepare GPFS must restate their comparative periods unless the standard is early adopted.

In conjunction with AASB 2020-2, the AASB issued AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060). Entities that prepare Tier 2 GPFS, or intend to prepare Tier 2 GPFS after adoption of AASB 2020-2, as defined by AASB 1053 *Application of Tiers of Australian Accounting Standards*, will be required to prepare financial statements that comply with AASB 1060 for reporting periods commencing on or after 1 July 2021. The existing Reduced Disclosure Regime (RDR) disclosures will be removed from Australian Accounting Standards, effective the same date.

Not-for-profit (NFP) entities preparing SPFS are unaffected by AASB 2020-2 as the AASB is considering NFP disclosure requirements as part of a separate project, however NFP entities preparing Tier 2 GPFS are required to transition to AASB 1060 for years commencing on or after 1 July 2021.

Who is impacted?

The following table summarises the types and examples of entities impacted by the change.

Class of entity	Examples of entities impacted
For-profit companies preparing financial statements under the Corporations Act 2001;	• Large proprietary companies, including grandfathered companies • Unlisted public companies • Small foreign-controlled companies • Australian financial services licence holders • Small proprietary companies with crowd-sourced funding
Other for-profit entities required by legislation to prepare financial statements that comply with either Australian Accounting Standards (AAS) or accounting standards;	• Co-operatives • Incorporated associations • Higher education providers
Entities whose constituting document or another document requires the preparation of financial statements that comply with Australian Accounting Standards (only if created or amended on or after 1 July 2021)	• Private trusts • Partnerships • Joint arrangements • Self-managed superannuation funds
Other entities that elect to prepare GPFS	• For-profit entities (both private and public sector)

Transitioning from SPFS to GPFS

In the standard-setting process for AASB 2020-2, the AASB acknowledged that a variety of different fact patterns exist amongst the entities impacted. The AASB therefore defined a series of transition paths from SPFS to GPFS for impacted entities in AASB 2020-2.

Entities that did not comply with all applicable recognition and measurement requirements in their most recent financial statements have a choice of applying either AASB 1 *First-time Adoption of Australian Accounting Standards* (modified by AASB 2020-2) or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Additional transitional relief is included within AASB 2020-2 which takes precedence over AASB 1 for the purpose of transition.

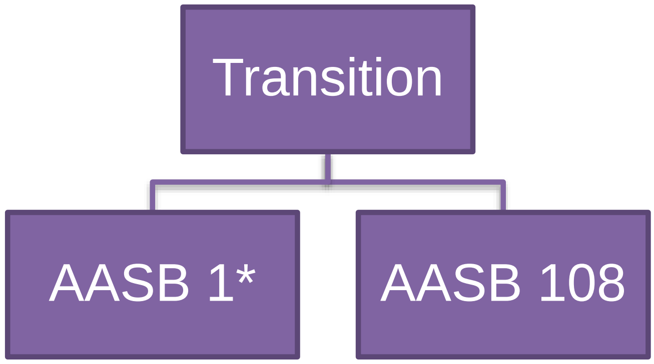
As highlighted by the AASB, entities that were historically required by Australian Accounting Standards to prepare consolidated financial statements but elected to prepare separate financial statements (i.e. "parent only" financial statements) do NOT comply with "all applicable recognition and measurement requirements".

AASB 1 vs AASB 108 – selecting an approach

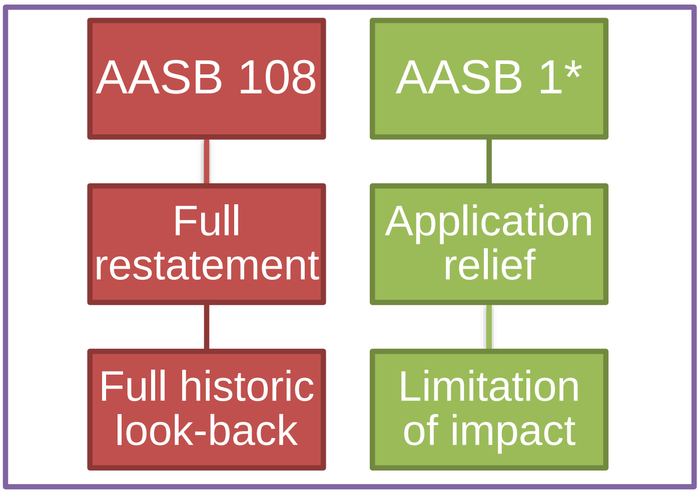
AASB 1 and AASB 2020-2, together (for simplicity, "the AASB 1 approach") provides specific relief in the application of recognition and measurement standards for entities that recorded certain types of historical transactions in a manner not compliant with Australian Accounting Standards.

AASB 108 is a full restatement approach which requires the entity to recalculate all balances as if all Australian Accounting Standards were applied from inception. This approach may benefit simpler entities with a limited number of historical transactions, but is particularly complex for entities with historic transactions and long-term non-compliance with the Australian Accounting Standards. As an example, when applying AASB 108, an entity that acquired a business in 2011 would be required to retrospectively apply acquisition accounting including identifying and valuing intangibles as of the date of acquisition, and then compute amortisation and assess impairment for each period through to the year of adoption – a full historic look-back.

The AASB 1 approach will benefit entities with historical transactions and long-term non-compliance with the Australian Accounting Standards due to the concessions available, including short-term exemptions from restating comparative information. In the context of the previous example, the AASB 1 approach would allow the entity to not record identifiable intangibles but instead record any excess consideration as Goodwill – and limit impairment testing to the date of transition and each year-end thereafter.



* Certain modifications are made by AASB 2020-2, with additional relief provided.



Certain transitional relief is only available to entities transitioning to Tier 2 GPFS (from SPFS) that early adopt AASB 2020-2. This relief includes the removal of the requirement to restate comparative financial information and provide comparative information for new disclosures – i.e. disclosures required as a result of complying with all recognition and measurement requirements that were not presented in the most recent previous financial statements.

Experienced preparers of financial statements may be able to apply certain knowledge gained upon transition from pre-IFRS Australian Accounting Standards to IFRS-based Australian Accounting Standards in 2006.

Transitioning from SPFS to GPFS

The following diagram demonstrates the applicable adoption approaches contained within AASB 2020-2 – Chart 1. As previously noted, entities that previously prepared SPFS that did not comply with all recognition and measurement requirements, including consolidation and equity-method accounting have a choice of applying either AASB 1 or AASB 108, whereas entities that complied with all applicable recognition and measurement requirements are limited in impact to adoption of new and additional disclosures.

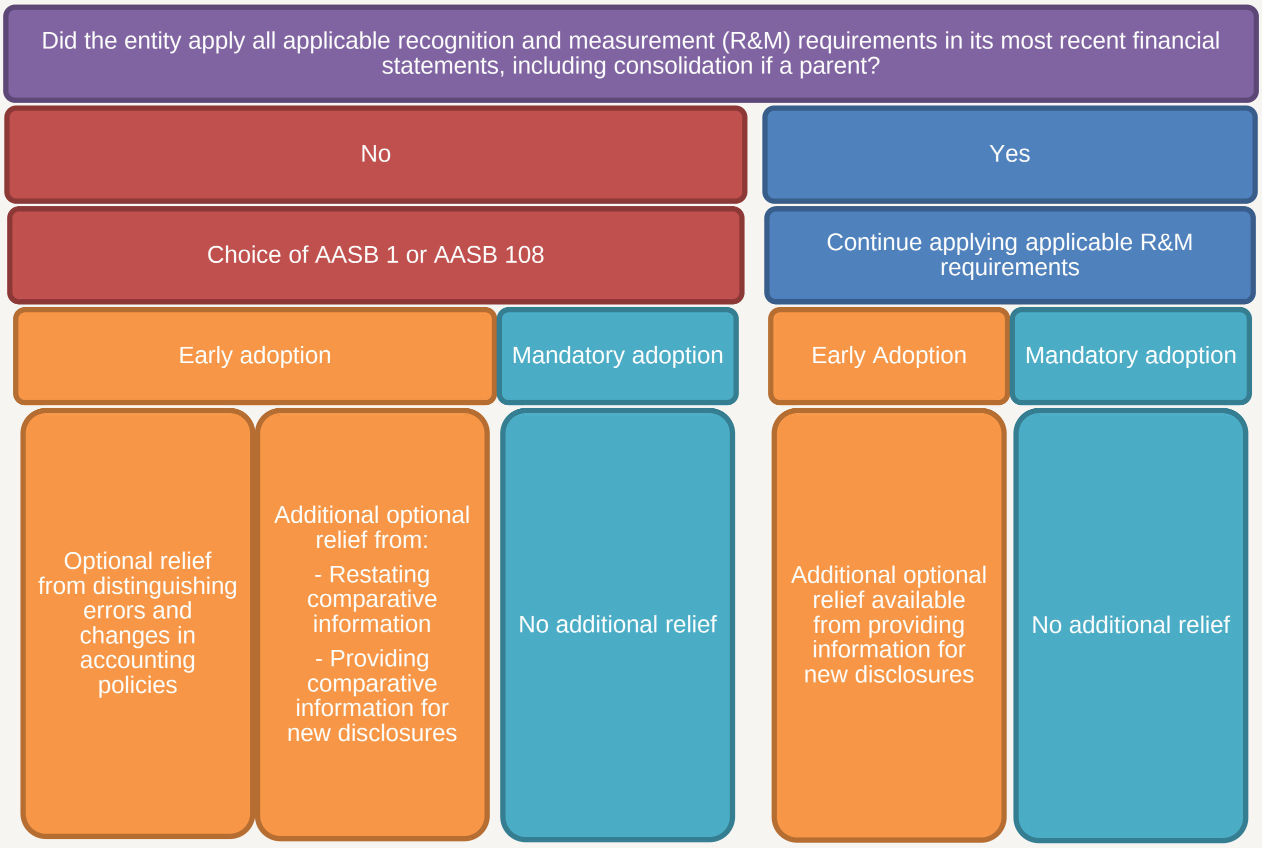


Diagram 1: Applicable adoption approaches

The consequences of each transition approach are as follows:

Transition approach	Accounting implications
AASB 108	• Full restatement of the current and comparative periods required (unless impracticable) and no further relief is available
AASB 1	• Transition relief is available in certain areas, including electing not to apply AASB 3 *Business Combinations* retrospectively to past business combinations and using fair value as deemed cost to measure property, plant and equipment and certain other assets
Early adoption of AASB 2020-2, AASB 1060 & AASB 1	• Restatement of comparatives not required • Comparative information for new disclosures – i.e. disclosures required as a result of complying with all recognition and measurement requirements that were not presented in the most recent previous financial statements not required

Transitioning from SPFS to GPFS

Transition approach	Accounting implications
Early adoption of AASB 2020-2, AASB 1060 & AASB 1 *(continued)*	• Recognise adjustments arising from any difference between the carrying amounts in previous SPFS and opening carrying amounts based on the retrospective application of Australian Accounting Standards directly in retained earnings (or if appropriate, another category of equity) at the beginning of the first Australian Accounting Standards reporting period • Present a reconciliation of equity from most recent SPFS to current period GPFS opening equity balance (with quantification) required • Provide a description of main adjustments that would have been required to make comparatives complaint with Australian Accounting Standards (no quantification necessary) • Prominently label comparative information that is non-compliant with Australian Accounting Standards as such
Early adoption of AASB 2020-2, AASB 1060 where entity historically complied with all applicable R&M requirements	• Comparative information for new disclosures – i.e. disclosures required as a result of complying with all recognition and measurement requirements that were not presented in the most recent previous financial statements not required

Contact

Merilyn Gwan
Partner
Audit & Assurance
+61 2 8297 2431
Merilyn.Gwan@au.gt.com

Andrew Newman
Partner
Audit & Assurance
+61 7 3222 0308
Andrew.Newman@au.gt.com

Owen Carew
Director
Audit & Assurance
+61 3 8663 6403
Owen.Carew@au.gt.com

Peter Kidd
Director
Audit & Assurance
+61 3 8320 2338
Peter.Kidd@au.gt.com