



# Technical Accounting Alert

## What's new for December 2016?

### Introduction

The objective of this Technical Accounting (TA) Alert is to:

- provide information on new and revised Accounting Standards that are mandatorily applicable for the first time to 31 December 2016 annual and/or half-year ends; and
- highlight other recent financial reporting developments

This TA Alert incorporates all the relevant pronouncements and developments as at **17 October 2016**. Entities should also take into account any new pronouncements issued, or developments taking place, after this date if they are relevant for the financial year and/or half-years ending 31 December 2016.

Appendix A provides information on pronouncements issued by the Australian Accounting Standards Board (AASB) and/or the International Accounting Standards Board (IASB) that are not yet applicable.

For a comprehensive list of all the pronouncements issued by the AASB and the IASB that are not yet effective, refer to our latest TA Alert on this topic on our website

(<http://www.grantthornton.com.au/en/insights/technical-publications--ifrs/local-technical-and-financial-reporting-alerts/>).

### Overview

There are a number of new and revised Australian accounting requirements that apply mandatorily for the first time to annual and/or half-year reporting periods ending 31 December 2016, which are summarised in the table on the following page.

Standard / Interpretation	Mandatory effective date (Annual periods beginning on or after...)	Applicable for the first time to year ending 31 December 2016?	Applicable for the first time to half-year ending 31 December 2016?
AASB 14 <i>Regulatory Deferral Accounts</i>	1 January 2016	✓	✓
AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts)</i>	1 January 2016	✓	✓
AASB 2014-3 <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016	✓	✓
AASB 2014-4 <i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016	✓	✓
AASB 2014-6 <i>Amendments to Australian Accounting Standards – Agriculture: Bearer Plants</i>	1 January 2016	✓	✓
AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i>	1 January 2016	✓	✓
AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle</i>	1 January 2016	✓	✓
AASB 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	1 January 2016	✓	✓
AASB 2015-3 <i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i>	1 July 2015	✓	x
AASB 2015-4 <i>Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent</i>	1 July 2015	✓	x
AASB 2015-5 <i>Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception</i>	1 January 2016	✓	✓
AASB 2015-6 <i>Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i>	1 July 2016	x	✓
AASB 2015-7 <i>Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities</i>	1 July 2016	x	✓
AASB 2015-9 <i>Amendments to Australian Accounting Standards – Scope and Application Paragraphs</i>	1 January 2016	✓	✓
AASB 2015-10 <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</i>	1 January 2016	✓	✓
AASB 1056 <i>Superannuation Entities</i>	1 July 2016	x	✓
AASB 1057 <i>Application of Australian Accounting Standards</i>	1 January 2016	✓	✓

### Requirements applying for the first time to annual or half-year periods ending 31 December 2016

Although a number of new and revised standards became effective for the annual or half-year periods ending 31 December 2016, this TA Alert focuses only on the relatively significant changes. Other standards are unlikely to have any significant impact on entities.

#### *AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*

The amendments to AASB 11 *Joint Arrangements* state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a ‘business’, as defined in AASB 3 *Business Combinations*, should:

- apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not re-measured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and
- provide disclosures for business combinations as required by AASB 3 and other Australian Accounting Standards.

AASB 2014-3 is applicable to annual reporting periods beginning on or after 1 January 2016.

#### *AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

AASB 2014-4 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*

AASB 2014-6 defines bearer plants and requires bearer plants to be accounted for as property, plant and equipment within the scope of AASB 116 *Property, Plant and Equipment* instead of AASB 141 *Agriculture*.

The produce growing on bearer plants will remain within the scope of AASB 141.

AASB 2014-6 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*

The amendments introduce the equity method of accounting as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

AASB 2014-9 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*

These amendments arise from the issuance of *Annual Improvements to IFRSs 2012-2014 Cycle* in September 2014 by the IASB.

Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5.

AASB 2015-1 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project.

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

AASB 2015-2 is applicable to annual reporting periods beginning on or after 1 January 2016.

*AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*

AASB 2015-4 amends AASB 128 *Investments in Associates and Joint Ventures* to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 *Consolidated Financial Statements* for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015.

*AASB 1057 Application of Australian Accounting Standards*

In May 2015, the AASB decided to revise Australian Accounting Standards that incorporate IFRSs to minimise Australian-specific wording even further. The AASB noted that IFRSs do not contain application paragraphs that identify the entities and financial reports to which the Standards (and Interpretations) apply. As a result, the AASB decided to move the application paragraphs previously contained in each Australian Accounting Standard (or Interpretation), unchanged, into a new Standard AASB 1057 *Application of Australian Accounting Standards*.

AASB 2015-9 *Amendments to Australian Accounting Standards – Scope and Application Paragraphs* removes the application paragraphs from each Australian Accounting Standard.

AASB 1057 and AASB 2015-9 are applicable to annual reporting periods beginning on or after 1 January 2016.

## Other financial reporting developments that are relevant to annual periods ending 31 December 2016

### ASIC focus areas for 31 December 2016

Australian Securities and Investments Commission (ASIC) is yet to announce its focus areas for 31 December 2016 financial reports. However, we expect them to be similar to the ASIC focus areas for 30 June 2016 financial reports, being:

- impairment testing and asset values
- off-balance sheet arrangements
- revenue recognition
- expense deferral
- tax accounting
- estimates and accounting policy judgements
- impact of new revenue, financial instrument and leases standards

When ASIC publishes its focus areas for 31 December 2016 financial reports, Grant Thornton will issue a new TA Alert which will be located under:

<http://www.grantthornton.com.au/en/insights/technical-publications--ifrs/local-technical-and-financial-reporting-alerts/>.

## Other financial reporting developments that are relevant to future periods

### Significant global entities to lodge general purpose financial statements

In December 2015, the Australian parliament passed *Tax Law Amendment (Combating Multinational Tax Avoidance Act 2015)* which amends the *Taxation Administration Act 1953* to require corporate tax entities that are 'significant global entities' to prepare and lodge general purpose financial statements (GPFs) with the Australian Taxation Office (ATO) if they do not already lodge their general purpose financial statements with the Australian Securities and Investments Commission (ASIC). These GPFs will then be sent to ASIC and put on ASIC's public register. The amendment applies to income years commencing on or after 1 July 2016.

An entity is a 'significant global entity' if it is:

- a global parent entity with an annual global income of A\$1 billion or more; or
- a member of a group of entities consolidated for accounting purposes and one of the other group members is a global parent entity with an annual global income of A\$1 billion or more.

The ATO can also make a determination that an entity is a significant global entity if, in the period where it has not prepared global financial statements, ATO believes its annual global income is A\$1 billion or more.

Presently, there are a number of questions surrounding the implementation of this legislation. For example, there is lack of clarity with respect to:

- the meaning of ‘global income’
- whether financial statements prepared using Australian reduced disclosure requirements (i.e. Tier 2) would be acceptable
- whether a foreign corporate tax entity can lodge financial statements prepared in accordance with its home country’s accounting standards such as IFRS or US GAAP if the financial statements consolidate the relevant Australian entity
- acceptable accounting standards/framework other than Australian accounting standards
- the status of entities that currently meet the relief requirements in ASIC Class Orders (e.g. CO 98/98 Small proprietary companies which are controlled by a foreign company but which are not part of a large group and CO 98/1418 Wholly-owned entities)
- the status of grandfathered large proprietary companies

The ATO is currently in the process of clarifying these matters. In late August 2016, the ATO issued a [consultation paper](#) which was due for public comments by 30 September 2016. The consultation paper provides clarification on some issues, but leaves open questions over a number of other issues.

#### Income of Not-for-Profit Entities

The Australian Accounting Standards Board (AASB) is in its final stages of its project to replace the existing income recognition requirements for not-for-profit entities, with the new standard expected to be released by the end of 2016.

It is expected that the new standard will provide more opportunity for not-for-profit entities to defer income recognition when performance obligations are attached, and extend fair value requirements to cover all assets for which consideration is significantly below the asset’s fair value (including peppercorn leases) rather than only those received for nil or nominal consideration.

The AASB published a [‘fatal flaw’ draft](#) of the proposed new standard on its website in late September 2016. Public comments on the ‘fatal flaw’ draft were due by 21 October 2016. It is expected that the final standard will be issued by the end of 2016.

The AASB currently intends to apply the new standard to financial reporting periods beginning on or after 1 January 2019 and will also defer the application of AASB 15 *Revenue from Contracts with Customers* for NFP entities until this date.

#### AASB 16 *Leases*

The AASB released AASB 16 *Leases* on 23 February 2016. This followed the publication of IFRS 16 *Leases* by the International Accounting Standards Board on 13 January 2016, completing its long-running project to overhaul lease accounting.

The new Standard requires lessees to account for leases ‘on-balance sheet’ by recognising a ‘right of use’ asset and a lease liability. It will affect most companies that report under Australian Accounting Standards and are involved in leasing, and will have a substantial impact on the financial statements of lessees of property and high value equipment. For many other businesses, however, exemptions for short-term leases and leases of low value assets will reduce the impact. The table below summarises the main changes at a glance.

Heading	Main changes
<b>Who is affected?</b>	<ul style="list-style-type: none"> <li>• entities that lease assets as a lessee or a lessor</li> </ul>
<b>What's the impact on lessees?</b>	<ul style="list-style-type: none"> <li>• all leases will be accounted for ‘on-balance sheet’, other than short-term and low value asset leases</li> <li>• lease expense will typically be ‘front-loaded’</li> <li>• lease liability will exclude:               <ul style="list-style-type: none"> <li>– option periods unless exercise is reasonably certain</li> <li>– contingent payments that are linked to sales/usage</li> </ul> </li> </ul>
<b>What's the impact on lessors?</b>	<ul style="list-style-type: none"> <li>• only minor changes from the current Standard, AASB 117 <i>Leases</i></li> </ul>
<b>Are there other changes?</b>	<ul style="list-style-type: none"> <li>• a new definition of a lease may result in some arrangements previously classified as leases ceasing to be so, and vice versa</li> <li>• new guidance on sale and leaseback accounting</li> <li>• new and different disclosures</li> </ul>
<b>When are the changes effective?</b>	<ul style="list-style-type: none"> <li>• annual reporting periods beginning on or after 1 January 2019</li> <li>• various transition reliefs</li> <li>• early application is permitted if AASB 15 <i>Revenue from Contracts with Customers</i> is applied</li> </ul>

For more information, refer to our [IFRS special edition newsletter](#).

#### Further information

For further information on any of the information included in this TA Alert, please get in touch with your local Grant Thornton Australia contact or a member of the National Audit Support team at [nationalaudit.support@au.gt.com](mailto:nationalaudit.support@au.gt.com).



## Appendix A: Accounting Standards issued but not yet effective

AASB/IASB Standards issued but not yet effective for financial year ending 31 December 2016<sup>1</sup>

Standard/Interpretation	Date of issue	Mandatory effective date (Annual periods beginning on or after ...)	Early adoption permitted <sup>2</sup>
AASB 9 <i>Financial Instruments</i> (2014)	17 December 2014	1 January 2018	Yes (extensive transitional rules apply)
AASB 15 <i>Revenue from Contracts with Customers</i>	12 December 2014	1 January 2018	Yes (extensive transitional rules apply)
AASB 16 <i>Leases</i>	23 February 2016	1 January 2019	Yes (extensive transitional rules apply)
AASB 1056 <i>Superannuation Entities</i>	5 June 2014	1 July 2016	Yes
AASB 1057 <i>Application of Australian Accounting Standards</i>	24 July 2015	1 January 2016	Yes
AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i>	12 December 2014	1 January 2018	Yes
AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2014)	17 December 2014	1 January 2018	Yes
AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	23 December 2014	1 January 2018	Yes
AASB 2015-6 <i>Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i>	31 March 2015	1 July 2016	Yes
AASB 2015-7 <i>Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities</i>	8 July 2015	1 July 2016	Yes
AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i>	22 October 2015	1 January 2017	Yes
AASB 2016-1 <i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i>	24 February 2016	1 January 2017	Yes
AASB 2016-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	23 March 2016	1 January 2017	Yes

<sup>1</sup> For a comprehensive list of all the pronouncements issued by the AASB / IASB that are not yet effective, refer to our latest TA Alert on this topic on our website (<http://www.grantthornton.com.au/en/insights/technical-publications-ifs/local-technical-and-financial-reporting-alerts/>).

<sup>2</sup> Entities intending to early adopt these pronouncements should refer to the specific early application provisions in each Standard.

Standard/Interpretation	Date of issue	Mandatory effective date (Annual periods beginning on or after ...)	Early adoption permitted <sup>1,2</sup>
AASB 2016-03 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	11 May 2016	1 January 2018	Yes
AASB 2016-4 <i>Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</i>	27 June 2016	1 January 2017	Yes
AASB 2016-5 <i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	21 July 2016	1 January 2018	Yes