



Technical Accounting Alert

What's new for June 2017?

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 30 June 2017 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 **7 April 2017**. 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 30 June 2017.

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 30 June 2017, 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 30 June 2017? | Applicable for the first time to half-year ending 30 June 2017? |
|--|--|--|---|
| AASB 14 <i>Regulatory Deferral Accounts</i> | 1 January 2016 | ✓ | x |
| AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts)</i> | 1 January 2016 | ✓ | x |
| AASB 2014-3 <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</i> | 1 January 2016 | ✓ | x |
| AASB 2014-4 <i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i> | 1 January 2016 | ✓ | x |
| AASB 2014-6 <i>Amendments to Australian Accounting Standards – Agriculture: Bearer Plants</i> | 1 January 2016 | ✓ | x |
| AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i> | 1 January 2016 | ✓ | x |
| AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | 1 January 2016 | ✓ | x |
| AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle</i> | 1 January 2016 | ✓ | x |
| AASB 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i> | 1 January 2016 | ✓ | x |
| AASB 2015-5 <i>Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception</i> | 1 January 2016 | ✓ | x |
| AASB 2015-6 <i>Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i> | 1 July 2016 | ✓ | ✓ |
| AASB 2015-7 <i>Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities</i> | 1 July 2016 | ✓ | ✓ |
| AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i> | 1 January 2017 | x | ✓ |
| AASB 2015-9 <i>Amendments to Australian Accounting Standards – Scope and Application Paragraphs</i> | 1 January 2016 | ✓ | x |
| AASB 2016-1 <i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i> | 1 January 2017 | x | ✓ |
| AASB 2016-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i> | 1 January 2017 | x | ✓ |
| AASB 2016-4 <i>Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</i> | 1 January 2017 | x | ✓ |
| AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities (until 1 January 2019)</i> | 1 January 2017 | x | ✓ |

| Standard / Interpretation | Mandatory effective date (Annual periods beginning on or after...) | Applicable for the first time to year ending 30 June 2017? | Applicable for the first time to half-year ending 30 June 2017? |
|--|--|--|---|
| AASB 2017-2 <i>Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle</i> | 1 January 2017 | x | ✓ |
| AASB 1056 <i>Superannuation Entities</i> | 1 July 2016 | ✓ | ✓ |
| AASB 1057 <i>Application of Australian Accounting Standards</i> | 1 January 2016 | ✓ | x |

Requirements applying for the first time to annual or half-year periods ending 30 June 2017

Although a number of new and revised standards became effective for the annual or half-year periods ending 30 June 2017, this TA Alert focuses only on the relatively significant changes. Other standards are unlikely to have any significant impact on entities.

AASB 1056 *Superannuation Entities*

AASB 1056 replaces the existing requirements in AAS 25 *Financial Reporting by Superannuation Plans*, and applies to large superannuation entities regulated by the Australian Prudential Regulation Authority (APRA) and to public sector superannuation entities.

This Standard is expected to result in significant changes to the recognition, measurement, presentation and disclosures relating to superannuation entity financial statements. Some of the key changes include:

- greater level of integration between AASB 1056 and other Australian Accounting Standards
- a revised definition of a superannuation entity
- revised content/presentation of financial statements (e.g. the introduction of a statement of changes in member benefits and a statement of changes in equity/reserves)
- use of fair value rather than net market value for measuring assets and liabilities (subject to certain exceptions)
- revised member liability recognition and measurement requirements
- new requirements regarding employer-sponsor receivables
- new / revised disclosure requirements

AASB 1056 is applicable to annual reporting periods beginning on or after 1 July 2016.

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 2015-2 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 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

AASB 2016-1 amends AASB 112 *Income Taxes* to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

AASB 2016-1 is applicable to annual reporting periods beginning on or after 1 January 2017.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

AASB 2016-2 amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

AASB 2016-2 is applicable to annual reporting periods beginning on or after 1 January 2017.

AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities

This Standard amends AASB 136 *Impairment of Assets* to:

- remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities; and
- clarify that the recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*, with the consequence that:
 - AASB 136 does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*; and
 - AASB 136 applies to such assets accounted for under the cost model in AASB 116 and AASB 138

AASB 2016-4 is applicable to annual reporting periods beginning on or after 1 January 2017.

AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities

AASB 2016-7 amends the mandatory effective date of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by such entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018.

AASB 2016-7 is applicable to annual reporting periods beginning on or after 1 January 2017.

Other financial reporting developments that are relevant to annual periods ending 30 June 2017

ASIC focus areas for 30 June 2017

Australian Securities and Investments Commission (ASIC) is yet to announce its focus areas for 30 June 2017 financial reports. However, we expect them to be similar to the ASIC focus areas for 31 December 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 30 June 2017 financial reports, Grant Thornton will issue a new TA Alert which will be located on our website under [local technical and financial reporting alerts](#).

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. *ASIC Corporations (Exempt Proprietary Companies) Instrument 2015/840* – formerly CO 98/98 *Small proprietary companies which are controlled by a foreign company but which are not part of a large group* and *ASIC Corporations (Wholly owned Companies) Instrument 2016 785* – formerly 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](#) for which public comments closed on 30 September 2016. The consultation paper provided clarification on some issues, but left open questions over a number of other issues. The ATO is expected to release its final guidance in the coming months.

Other financial reporting developments that are relevant to future periods

Income of Not-for-Profit Entities

Following a decade-long project to overhaul the income recognition requirements for Not-for-Profit (NFP) entities, the AASB has finally issued its new income recognition requirements for NFP entities.

The new requirements are expected to result in better matching of income and related expenses as income recognition will now be deferred when there is a performance obligation or any other liability. For example, if a not-for-profit entity receives a grant or donation which comes with a sufficiently specific and enforceable performance obligation, the entity will recognise revenue when it fulfils its performance obligation. This is in contrast to the current requirements which commonly force income recognition on day one despite the fact that the entity is yet to fulfil its performance obligation. In addition, more assets will now be recorded on the balance sheet as the new requirements broaden the ‘fair value on initial recognition’ principle to cover all assets where NFPs pay significantly less than the fair value (not just those assets acquired at nil or nominal consideration as currently required), principally to enable the NFPs to further their objectives (i.e. not trade discounts or distress sales).

These requirements were released in December 2016 in a package of standards, comprising:

- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (mainly inserts Appendix F into AASB 15)

These standards replace the existing requirements in AASB 1004 *Contributions*. AASB 1004 continues to be in force, however its scope has now been reduced to only cover issues specific to government departments and contributions by owners in the public sector.

The new requirements become mandatory for annual period beginning on or after 1 January 2019. Early application is permitted provided AASB 15 *Revenue from Contracts with Customers* is also adopted for the same period. There is now a one-year extension to the effective date of AASB 15 to NFPs (i.e. it applies to NFPs from 1 January 2019).

For more information, refer to TA 2017-01 [New income recognition requirements for Not-for-Profit entities](#).

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

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

Insurance Contracts

Having completed its public consultation and redeliberation process, the International Accounting Standards Board (IASB) is currently in the process of drafting up the new insurance standard which would replace IFRS 4 *Insurance Contracts*.

IFRS 4, which was issued in March 2004, was intended only as an interim Standard which allowed insurers to continue to use various accounting practices that had developed over the year, pending the completion of a comprehensive Standard. The new Standard will eliminate inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. It will also provide requirements for presentation and disclosures to enhance comparability between entities.

The new standard is expected to be issued in mid-2017. The AASB is expected to release the equivalent Australian standard shortly after the release of the international standard.

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.

Appendix A: Accounting Standards issued but not yet effective

AASB / IASB Standards issued but not yet effective for financial year ending 30 June 2017¹

| Standard / Interpretation | Date of issue | Mandatory effective date (Annual periods beginning on or after...) | Early adoption permitted ² |
|--|------------------|--|--|
| 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> (deferred until 1 January 2019 by AASB 2016-7 for not-for-profit entities) | 12 December 2014 | 1 January 2018 (for-profit entities) 1 January 2019 (not-for-profit entities) | Yes (extensive transitional rules apply) |
| AASB 16 <i>Leases</i> | 23 February 2016 | 1 January 2019 | Yes (extensive transitional rules apply) |
| AASB 1058 <i>Income of Not-for-Profit Entities</i> | 9 December 2016 | 1 January 2019 | Yes (extensive transitional rules apply) |
| AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i> | 12 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> (Note: Effective date deferred from 1 January 2016 by AASB 2015-10 <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</i>) | 23 December 2014 | 1 January 2018 | 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 |
| AASB 2016-3 <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 |

¹ 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--ifrs/local-technical-and-financial-reporting-alerts/>).

² 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 ² |
|---|------------------|--|---------------------------------------|
| <i>AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i> | 21 July 2016 | 1 January 2018 | Yes |
| <i>AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts</i> | 5 October 2016 | 1 January 2018 | No |
| <i>AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities (until 1 January 2019)</i> | 9 December 2016 | 1 January 2017 | Yes |
| <i>AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i> | 9 December 2016 | 1 January 2019 | Yes |
| <i>AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i> | 13 February 2017 | 1 January 2018 (for-profit entities) 1 January 2019 (not-for-profit entities) | Yes |
| <i>AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle</i> | 13 February 2017 | 1 January 2017 | No |