Grant Thornton

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Technical Accounting Alert

TA 2017-09

What's new for December 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 31 December 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 1 November 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 31 December 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 31 December 2017, which are summarised in the table on the following page.

New and Revised Australian Accounting Requirements

Standard / Interpretation	**Mandatory effective date** (Annual periods beginning on or after…)	Applicable for the first time to year ending 31 December 2017?	Applicable for the first time to half-year ending 31 December 2017?
AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*	1 July 2016	✓	x
AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*	1 July 2016	✓	x
AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017	✓	✓
AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*	1 January 2017	✓	✓
AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities*	1 January 2017	✓	✓
AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* (until 1 January 2019)	1 January 2017	✓	✓
AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*	1 January 2017	✓	✓
AASB 1056 *Superannuation Entities*	1 July 2016	✓	x

Requirements applying for the first time to annual or half-year periods ending 31 December 2017

Although a number of new and revised standards became effective for the annual or half-year periods ending 31 December 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 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 31 December 2017

ASIC focus areas for 31 December 2017

Australian Securities and Investments Commission (ASIC) is yet to announce its focus areas for 31 December 2017 financial reports. However, we expect them to be similar to the ASIC focus areas for 30 June 2017 financial reports, being:

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

When ASIC publishes its focus areas for 31 December 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

On 28 September 2017 the Australian Taxation Office (ATO) issued guidance on the December 2015 amendments to tax law which require significant global entities to lodge general purpose financial statements (GPFS) with the ATO if they do not already lodge their GPFS with the Australian Securities and Investments Commission (ASIC). These GPFSs 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' (SGE) 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 guidance clarifies a number of aspects of the requirements including:

- annual global income is based on revenue and other income in the global parent entity's consolidated financial statements;
- how to translate foreign currencies into AUD to measure annual global income;
- Australian Corporations Act entities that are currently exempt from lodging financial statements with ASIC (e.g., grandfathered proprietary companies and small foreign-controlled companies with ASIC Class Order relief) or lodge special purpose financial statements with ASIC are subject to the requirements;
- the GPFS lodged by Australian Corporations Act entities that are controlled by a foreign parent may be prepared for the ultimate Australian parent or the global parent entity, but these will need to comply with Australian Accounting Standards (AAS) (subject to a transitional exemption);
- entities resident for Australian tax purposes and not subject to Part 2.M.3 of the Corporations Act (e.g., corporate limited partnerships and public trading trusts) and foreign residents operating a permanent establishment are able to lodge GPFS complying with AAS or commercially accepted accounting principles (CAAP);

- CAAP is a new concept. It includes financial statements that are IFRS compliant (such as AAS) and US GAAP. It is unclear whether other national GAAPs will be acceptable. Considerations include whether principles ensure the financial statements provide a true and fair value and the ability to describe the financial statements as GPFS; and

- Tier 2 Australian Accounting Standards – Reduced Disclosure Requirements (RDR) can be used for GPFS for entities that are not 'publically accountable'.

Two forms of transition relief are available. For an income year that commenced between 1 July 2016 and 30 June 2017 foreign controlled entities will be able to lodge their foreign global parent entity consolidated financial statements if these comply with CAAP.

For an income year ended on 30 June 2017 only a lodgement concession is available. Instead of the lodgement deadline being on or before the day that the entity is required to lodge its income tax return, any relevant SGE has until 31 March 2018 to lodge a GPFS with the ATO.

If a SGE fails to give a GPFS to the ATO in the approved form on or before the due date it will be liable to an administrative penalty. From 1 July 2017 these penalties were increased by at least a factor of 100 and the maximum failure to lodge penalty for a SGE is now $525,000.

This is a complex area and clients are advised to speak to their local Grant Thornton contact if they may be an SGE or are unsure about their obligations. Refer also to TA Alert 2017-08 *Significant global entities are now required to lodge general purpose financial statements – what does this mean in practice?*

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 finally issued its new income recognition requirements for NFP entities in December 2016.

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 that 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 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).

Insurance contracts

After 20 years of development, the IASB issued IFRS 17 *Insurance Contracts* replacing IFRS 4 *Insurance Contracts*. The AASB issued AASB 17 *Insurance Contracts* in July 2017, fully incorporating the international standard.

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 years, pending the completion of a comprehensive Standard. The new Standard eliminates 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 also provides requirements for presentation and disclosures to enhance comparability between entities.

Under the new guidance, insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

The new standard is effective for annual reporting periods beginning on or after 1 January 2021 and early adoption is permitted. For more information, refer to TA Alert 2017-03 *IASB releases new insurance standard.*

Uncertain tax positions

In August 2017, AASB issued Interpretation 23 *Uncertainty over Income Tax Treatments*, which incorporates the IFRS Interpretations Committee (IFRIC) 23 *Uncertainty over Income Tax Treatments,* specifying how entities should reflect uncertainty in accounting for income taxes.

The interpretation addresses the following topics:

- When and how the effect of uncertainty over income tax treatments should be included in the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates
- The assumptions that an entity should make about the examination of tax treatments by taxation authorities
- Changes in facts and circumstances that would impact an entity's judgements and estimates with regard to uncertain tax treatments
- Whether uncertain tax treatments should be considered separately or together with other uncertain tax treatments
- Disclosure requirements

The Interpretation is effective for annual reports beginning on or after 1 January 2019 and early application is permitted. For more information, refer to TA Alert 2017-07 *IASB issues new interpretation on uncertainty over income tax treatments.*

Reduction in company tax rates

The *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017* (the Act) was substantively enacted on 9 May 2017. The ATO has called this Enterprise Tax Plan 2016, representing the year the bill was introduced rather than the year the Act was passed. Under the Act, tax rates will progressively reduce over a 10-year period for companies with aggregated turnover of less than $50m.

	Tax rate (%)					
Company type	**2016-17**	**2017-18**	**2018-19 to 2023-24**	**2024-25**	**2025-26**	**2026-27 & Later Years**
Company with aggregated turnover of up to $10m	27.5	27.5	27.5	27	26	25
Company with aggregated turnover of up to $25m	30	27.5	27.5	27	26	25
Company with aggregated turnover of up to $50m	30	30	27.5	27	26	25
All other companies	30	30	30	30	30	30

The effect of a change in tax rates on current and/or deferred tax is included as part of income tax expense/(income) in profit or loss except to the extent that it involves a remeasurement of tax originally accounted for in other comprehensive income or in equity, in which case the change should also be dealt with in, respectively, other comprehensive income or directly in equity.

Previously, with a single company tax rate of 30%, there was generally no need for a detailed schedule of when deferred tax assets and liabilities are likely to be settled and no need to link this to estimates of company turnover. Applying the new tax rates may impact an entity's calculation of deferred tax assets and liabilities. For more information, refer to TA Alert 2017-05 *Change in company tax rates*.

Further information

If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your Grant Thornton Relationship Partner or a member of the National Assurance Quality Team at national.assurance.quality@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 2017[1]

Standard / Interpretation	Date of issue	**Mandatory effective date** (Annual periods beginning on or after…)	Early adoption permitted[2]
AASB 9 *Financial Instruments* (2014)	17 December 2014	1 January 2018	Yes (extensive transitional rules apply)
AASB 15 *Revenue from Contracts with Customers* (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 *Leases*	23 February 2016	1 January 2019	Yes (extensive transitional rules apply)
AASB 17 *Insurance Contracts*	20 July 2017	1 January 2021	Yes (extensive transitional rules apply)
AASB 1058 *Income of Not-for-Profit Entities*	9 December 2016	1 January 2019	Yes (extensive transitional rules apply)
AASB 1059 *Service Concession Arrangements: Grantors*	14 July 2017	1 January 2019	Yes
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*	12 December 2014	1 January 2018	Yes
AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Note: Effective date deferred from 1 January 2016 by AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128)*	23 December 2014	1 January 2018	Yes
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*	11 May 2016	1 January 2018	Yes
AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	21 July 2016	1 January 2018	Yes
AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*	5 October 2016	1 January 2018	No

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

2 Entities intending to earl 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]
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*	9 December 2016	1 January 2019	Yes
AASB 2017-1 *Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*	13 February 2017	1 January 2018 *(for-profit entities)* 1 January 2019 *(not-for-profit entities)*	Yes
Interpretation 23 *Uncertainty over Income Tax Treatments*	3 August 2017	1 January 2019	Yes