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Technical Accounting Alert
TA 2018-02

What's new for June 2018?

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 2018 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 14 May 2018. 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 2018.

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 2018, 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 30 June 2018?	Applicable for the first time to half-year ending 30 June 2018?
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*	1 January 2018	x	✓
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*	1 January 2018	x	✓
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*	1 January 2017	✓	x
AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017	✓	x
AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*	1 January 2017	✓	x
AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	x	✓
AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities*	1 January 2017	✓	x
AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	1 January 2018	x	✓
AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*	1 January 2018	x	✓
AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* (until 1 January 2019)	1 January 2017	✓	x
AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*	1 January 2018*	x	✓
AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*	1 January 2017	✓	x
AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4*	1 January 2018	x	✓
AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*	1 January 2018	x	✓
AASB 15 *Revenue from Contracts with Customers*	1 January 2018*	x	✓
AASB 9 *Financial Instruments* (2018)	1 January 2018	x	✓
Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018	x	✓

* Only for for-profit entities. For not-for-profit entities, this standard is effective for annual periods beginning on or after 1 January 2019.

Requirements applying for the first time to annual or half-year periods ending 30 June 2018

Although a number of new and revised standards became effective for the annual or half-year periods ending 30 June 2018, this TA Alert focuses only on the relatively significant changes. Other standards are unlikely to have any significant impact on entities.

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 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*

The amendments clarify the application of AASB 15 in three specific areas to reduce the extent of diversity in practice that might otherwise result from differing views on how to implement the requirements of the new standard. They will help companies:

- Identify performance obligations (by clarifying how to apply the concept of 'distinct');
- Determine whether a company is a principal or an agent in a transaction (by clarifying how to apply the control principle);
- Determine whether a licence transfers to a customer at a point in time or over time (by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights).

The amendments also create two additional practical expedients available for use when implementing AASB 15:

- For contracts that have been modified before the beginning of the earliest period presented, the amendments allow companies to use hindsight when identifying the performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.
- Companies applying the full retrospective method are permitted to ignore contracts already complete at the beginning of the earliest period presented.

AASB 2016-3 is applicable to annual reporting periods beginning on or after 1 January 2018.

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 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

This Standard amends AASB 2 *Share-based Payment* to address:

- The accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- The classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
- The accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

AASB 2016-5 is applicable to annual reporting periods beginning on or after 1 January 2018.

AASB 15 *Revenue from Contracts with Customers*

AASB 15:

- replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related Interpretations
- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue.

AASB 15 is applicable to for-profit entities for annual reporting periods beginning on or after 1 January 2018. It is applicable to not-for-profit entities from 1 January 2019.

AASB 9 *Financial Instruments* (2014)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
    - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
    - the remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

AASB 9 is applicable to annual reporting periods beginning on or after 1 January 2018.

Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

Interpretation 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

Although AASB 121 *The Effects of Changes in Foreign Exchange Rates* sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in an entity's functional currency, the IFRS Interpretations Committee had observed diversity in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognised.

Interpretation 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Interpretation 22 is applicable to annual reporting periods beginning on or after 1 January 2018.

Other financial reporting developments that are relevant to annual periods ending 30 June 2018

ASIC focus areas for 30 June 2018

Australian Securities and Investments Commission (ASIC) is yet to announce its focus areas for 30 June 2018 financial reports. However, we expect them to be similar to the ASIC focus areas for 31 December 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 30 June 2018 financial reports, Grant Thornton will issue a new TA Alert which will be located on our website under local technical and financial reporting alerts.

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 IFRIC 23 'Uncertainty over Income Tax Treatments'.*

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 30 June 2018[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
AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4*	19 July 2017	1 January 2018	No
AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*	12 December 2017	1 January 2018	Yes
Interpretation 23 *Uncertainty over Income Tax Treatments*	3 August 2017	1 January 2019	Yes
AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*	12 December 2017	1 January 2019	Yes
AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*	12 December 2017	1 January 2019	Yes
AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*	14 February 2018	1 January 2019	Yes
AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*	23 March 2018	1 January 2019	Yes
Interpretation 23 *Uncertainty over Income Tax Treatments*	3 August 2017	1 January 2019	Yes