



Grant Thornton

An instinct for growth™



Technical Accounting Alert

TA 2018-06

What's new for December 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 31 December 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 4 December 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 31 December 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 31 December 2018, which are summarised in the table on the following page.

All TA Alerts can be found on the National Intranet (<http://qtassist.au.gt.local/>) under Professional Services/Audit & Assurance/Alerts and News (for Grant Thornton staff only) and the Grant Thornton Australia website (www.grantthornton.com.au) under Insights/Technical publications & IFRS/Local technical and financial reporting alerts. This Alert is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting or auditing advice. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at accounting and audit decisions that comply with matters addressed in this Alert. Grant Thornton is a trademark owned by Grant Thornton International Ltd (UK) and used under licence by independent firms and entities throughout the world. Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation.



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 2018? | Applicable for the first time to half-year ending 31 December 2018? |
|---|--|--|---|
| AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i> | 1 January 2018 | ✓ | ✓ |
| AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i> | 1 January 2018 | ✓ | ✓ |
| AASB 2016-5 <i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i> | 1 January 2018 | ✓ | ✓ |
| AASB 2016-6 <i>Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts</i> | 1 January 2018 | ✓ | ✓ |
| AASB 2017-1 <i>Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i> | 1 January 2018* | ✓ | ✓ |
| AASB 2017-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 4</i> | 1 January 2018 | ✓ | ✓ |
| AASB 2017-5 <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i> | 1 January 2018 | ✓ | ✓ |
| AASB 15 <i>Revenue from Contracts with Customers</i> | 1 January 2018* | ✓ | ✓ |
| AASB 9 <i>Financial Instruments</i> (2014) | 1 January 2018 | ✓ | ✓ |
| Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i> | 1 January 2018 | ✓ | ✓ |

* 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 31 December 2018

Although a number of new and revised standards became effective for the annual or half-year periods ending 31 December 2018, this TA Alert focuses only on the relatively significant changes. Other standards are unlikely to have any significant impact on entities.

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 2016-5 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 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

The amendments include:

- AASB 1 *First-time Adoption of Australian Accounting Standards* to delete some short-term exemptions for first-time adopters that were available only for reporting periods that have passed and to add exemptions arising from AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*;
- AASB 128 *Investments in Associates and Joint Ventures* to clarify that:
 - a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture; and
 - an entity that is not an investment entity may elect to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method. This choice is available separately for each investment entity associate or joint venture; and
- AASB 140 *Investment Property* to reflect the principle that an entity transfers a property to, or from, investment property when, and only when, there is a change in use of the property supported by evidence that a change in use has occurred.

AASB 2017-1 is applicable to annual reporting periods beginning on or after 1 January 2018 to for-profit entities and 1 January 2019 to not-for profit entities.

AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4

The amendments are made to AASB 4 *Insurance Contracts* to confirm compliance with AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 1023 and AASB 1038 address all aspects of recognition, measurement and disclosure of general and life insurance contracts. These Standards address a wider range of accounting requirements than AASB 4.

AASB 2017-3 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 31 December 2018

ASIC focus areas for 31 December 2018

On 3 December 2018, the Australian Securities and Investments Commission (ASIC) announced the following focus areas for 31 December 2018 financial reports:

- Impact of new accounting standards
- Impairment testing and asset values
- Revenue recognition
- Expense deferral
- Off-balance sheet arrangements
- Tax accounting
- Operating and financial review
- Non-IFRS financial information
- Estimates and accounting policy judgements

These areas are similar to the ASIC areas of focus for the 30 June 2018 reporting period, except the re-emergence of 'operating and financial review' and 'non-IFRS financial information'.

For more information, refer to our Technical Accounting Alert TA 2018-09 *ASIC focus areas for 31 December 2018 financial reports*.

Other financial reporting developments that are relevant to future periods

Application of the IASB's revised conceptual framework and solving the reporting entity and special purpose financial statement (SPFS) problems

In May 2018, the AASB released ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*.

The proposals were necessitated by the release of the IASB's revised Conceptual Framework containing a new definition of reporting entity which is different to the reporting entity concept currently applied in Australia and given the broader concerns around the volume and quality of special purpose financial statements produced in Australia resulting from the existing self-assessment process.

The Consultation Paper proposed the following two-phased approach for for-profit private sector entities.

| | |
|-------------------------------|--|
| Phase 1: Short-term approach | <ul style="list-style-type: none"> • Applying IASB's revised Conceptual Framework in Australia to publicly accountable for-profit entities and other for-profit entities who voluntarily comply with IFRSs • Continuing to apply the existing Conceptual Framework and use the Australian reporting entity concept for all other entities. |
| Phase 2: Medium-term approach | <ul style="list-style-type: none"> • Applying the revised Conceptual Framework to all for-profit private sector entities required by legislation or otherwise to comply with Australian Accounting Standards • Removing SAC 1 <i>Definition of the Reporting Entity</i> and amending Australian Accounting Standards to remove the Australian reporting entity concept for all for-profit private sector entities • Replacing SPFS with a Tier 2 framework represented by either: |



| | |
|--|--|
| | <ul style="list-style-type: none"> ○ Reduced Disclosure Requirements (RDR) framework; or ○ Specified Disclosure Requirements (SDR) framework |
|--|--|

Given the recent legislative review of the Australian Charities and Not-for-profits Commission (ACNC) and the likely changes to the reporting thresholds of NFP entities arising from the ACNC legislative review, the AASB has decided to consider and address the NFP financial reporting framework as a separate exercise (Phase 3).

Phase 1 is expected to be effective for periods beginning on or after 1 January 2020. The AASB is expected to conduct further consultations on Phase 2 during 2019 with the framework decided by 1 January 2020. The application date for Phase 2 is unknown at this stage.

Income of Not-for-Profit Entities

The AASB issued its new income recognition requirements for NFP entities in December 2016 which apply to NFP entities for annual periods beginning on or after 1 January 2019. The new requirements are contained in AASB 1058 *Income of Not-for-Profit Entities* and AASB 15, with the two standards applying in conjunction with each other.

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. In addition, more assets will now be recorded on the statement of financial position as the new requirements broaden the 'fair value on initial recognition' principle to cover all assets where NFP entities pay significantly less than the fair value (not just those assets acquired at nil or nominal consideration as currently required), principally to enable the NFP entities to further their objectives (i.e. not trade discounts or distress sales).

However, with respect to leases with significantly below market rates (such as peppercorn leases), AASB has recently released Exposure Draft ED 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* proposing to introduce a relief allowing NFP entities to not measure leases with significantly below market rates at fair value for initial measurement purposes when transitioning to AASB 1058 and AASB 16 *Leases*. Under the proposals, NFP entities will be allowed to measure peppercorn leases initially either at cost or fair value. When an entity elects to apply the cost option, it will need to provide additional disclosures in the financial statements (such as the entity's dependence on peppercorn leases, the nature and terms of such leases). The ED is open for public comment until 7 December 2018. It is expected that the AASB will issue the final amendment by 31 December 2018 with amendments being effective for annual periods beginning on or after 1 January 2019.

For more information, refer to TA 2018-08 *AASB proposes relief for NFPs from fair valuing peppercorn leases*.

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, the AASB issued Interpretation 23 *Uncertainty over Income Tax Treatments*, which incorporates 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'*.

Increase in threshold for large proprietary companies

In November 2018, the Commonwealth Treasury released an Exposure Draft proposing to increase the thresholds for determining what constitutes a large proprietary company under the *Corporations Act 2001*.

Currently, companies that meet the thresholds are required to prepare and lodge an audited financial report, a director's report and an auditor's report with the Australian Securities and Investments Commission (ASIC) each financial year.

The draft regulations propose to increase the thresholds as follows:

- the consolidated revenue for the financial year of the company and the entities it controls from \$25 million to \$50 million;
- the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls from \$12.5 million to \$25 million; or
- the company and the entities it controls having 50 employees to 100 employees at end of the financial year.

Consistent with the existing requirements, a proprietary company will be defined as large for a financial year if it satisfies at least two of the above thresholds.

The ED is open for public comment by 14 December 2018. It is expected that the proposed change will be effective for annual periods beginning on or after 1 July 2019.

Service concession arrangements: Grantors

AASB 1059 *Service Concession Arrangements: Grantors* addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from the grantor's perspective. It requires the grantor to:

- recognise a service concession asset constructed, developed or acquired from a third party by the operator, including an upgrade to an existing asset of the grantor, when the grantor controls the asset;
- reclassify an existing asset (including recognising previously unrecognised identifiable intangible assets and land under roads) as a service concession asset when it meets the criteria for recognition as a service concession asset;
- initially measure a service concession asset constructed, developed or acquired by the operator or reclassified by the grantor at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*. Subsequent to the initial recognition or reclassification of the asset, the service concession



asset is accounted for in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, as appropriate, except as specified in AASB 1059;

- recognise a corresponding liability measured initially at the fair value (current replacement cost) of the service concession asset, adjusted for any other consideration between the grantor and the operator; and
- disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of assets, liabilities, revenue and cash flows arising from service concession arrangements.

The new standard is effective for annual reporting periods beginning on or after 1 January 2020 (deferred from 1 January 2019 by AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*) and early adoption is permitted.

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 2018¹

| Standard / Interpretation | Date of issue | Mandatory effective date (Annual periods beginning on or after...) | Early adoption permitted ² |
|---|------------------|--|--|
| AASB 15 <i>Revenue from Contracts with Customers</i> (deferred until 1 January 2019 for not-for-profit entities) | 12 December 2014 | 1 January 2019 (<i>not-for-profit entities</i>) | Yes (extensive transitional rules apply) |
| AASB 16 <i>Leases</i> | 23 February 2016 | 1 January 2019 | Yes (extensive transitional rules apply) |
| AASB 17 <i>Insurance Contracts</i> | 20 July 2017 | 1 January 2021 | 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 1059 <i>Service Concession Arrangements: Grantors</i> | 14 July 2017 | 1 January 2020 | Yes |
| AASB 2016-8 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i> | 9 December 2016 | 1 January 2019 | Yes |
| AASB 2017-1 <i>Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i> | 13 February 2017 | 1 January 2019 (<i>not-for-profit entities</i>) | Yes |
| AASB 2017-4 <i>Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments</i> | 31 July 2017 | 1 January 2019 | Yes |
| Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> | 3 August 2017 | 1 January 2019 | Yes |
| AASB 2017-6 <i>Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation</i> | 12 December 2017 | 1 January 2019 | Yes |
| AASB 2017-7 <i>Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</i> | 12 December 2017 | 1 January 2019 | Yes |
| AASB 2018-1 <i>Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle</i> | 14 February 2018 | 1 January 2019 | 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 at 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 |
|---|------------------|--|---------------------------------------|
| AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement | 23 March 2018 | 1 January 2019 | Yes |
| AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements | 8 August 2018 | 1 January 2019 | Yes |
| AASB 2018-4 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors | 4 September 2018 | 1 January 2019 | Yes |
| AASB 2018-5 Amendments to Australian Accounting Standards – Deferral of AASB 1059 | 1 November 2018 | 1 January 2020 | Yes |