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# Technical Accounting Alert
# TA 2019-03

## What's new for June 2019?

### 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 2019 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 10 May 2019. 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-year ending 30 June 2019.

For a 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 are mandatory for the first time for annual and/or half-year reporting periods ending 30 June 2019, which are summarised below.

## 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 2019? | Applicable for the first time to half-year ending 30 June 2019? |
|---|---|---|---|
| AASB 9 *Financial Instruments (2014)* | 1 January 2018 | ✓ | x |
| AASB 15 *Revenue from Contracts with Customers* | 1 January 2018* | ✓ | x |
| AASB 16 *Leases* | 1 January 2019 | x | ✓ |
| AASB 1059 *Service Concession Arrangements: Grantors* | 1 January 2019 | x | ✓ |
| AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* | 1 January 2018 | ✓ | x |
| AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* | 1 January 2018 | ✓ | 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 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* | 1 January 2019 | 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 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4* | 1 January 2018 | ✓ | x |
| AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments* | 1 January 2019 | 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 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* | 1 January 2019 | x | ✓ |
| AASB 2017-7 *Amendments to Australian Accounting Standards – Long Term Interest in Associates and Joint Ventures* | 1 January 2019 | x | ✓ |
| AASB 2018-1 *Annual Improvements 2015-2017 Cycle* | 1 January 2019 | x | ✓ |
| AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement* | 1 January 2019 | x | ✓ |
| AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors* | 1 January 2019 | x | ✓ |
| AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* | 1 January 2019 | x | ✓ |
| Interpretation 22 *Foreign Currency Transactions and Advance Consideration* | 1 January 2018 | ✓ | x |
| Interpretation 23 *Uncertainty Over Income Tax Treatments* | 1 January 2019 | x | ✓ |

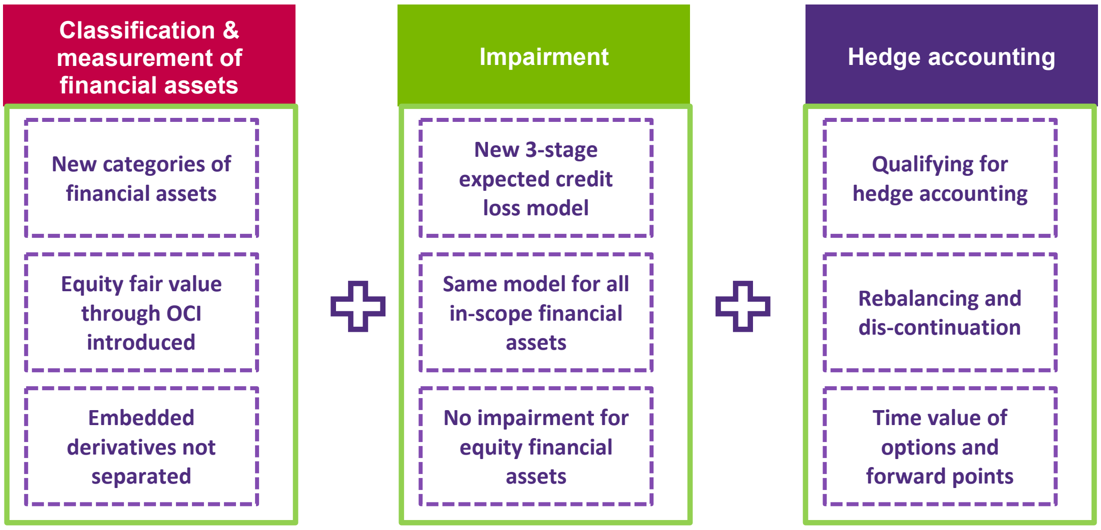
* For-profit entities only. For not-for-profit entities, this standard is effective for annual periods beginning on or after 1 January 2019.

## First time application to annual reporting periods ending 30 June 2019

Although a number of new and revised standards became effective for the annual/half-year periods ending 30 June 2019, this TA Alert focuses only on standards with relatively significant changes. Other standards are unlikely to have a significant impact on entities.

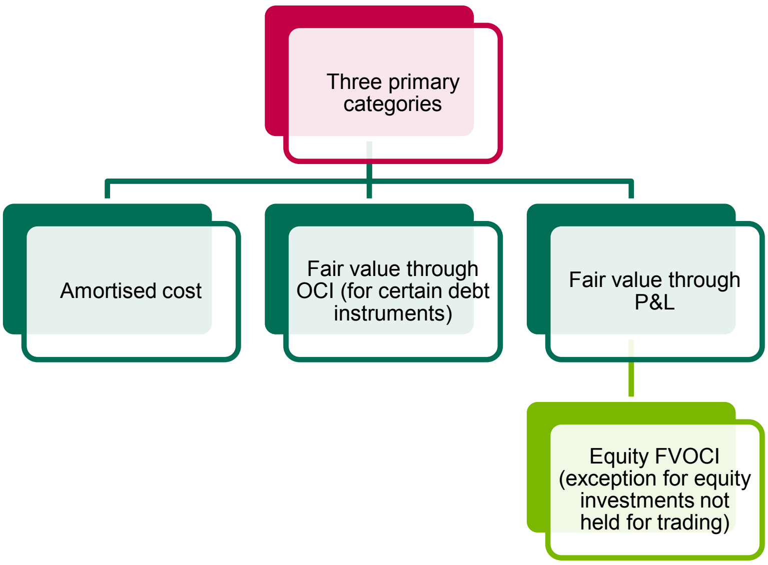
### AASB 9 *Financial Instruments* (2014) – Applicable to annual reporting periods ending 30 June 2019

AASB 9 introduces a new simplified approach for the classification and measurement of financial assets, including a new forward-looking ‘expected loss’ impairment model and better aligns hedge accounting to the risk management activities of businesses. Main changes are shown below.




#### *New approach to financial asset classification*

The AASB 139's financial asset measurement categories are replaced with three new primary categories. The classifications are determined by both a business model test and a contractual cash flows test.




Under the equity fair value through other comprehensive income (equity FVOCI) option, an entity is able to make an irrevocable election to present subsequent changes in the fair value of an investment in an equity instrument in other comprehensive income. ***This designation is available on transition and on initial recognition only.*** Under this classification there would be no reclassification to profit or loss on disposal and the financial instruments would not undergo impairment testing.

### AASB 15 *Revenue from Contracts with Customers (For-Profit entities)* – Applicable to annual reporting periods ending 30 June 2019

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and a number of revenue-related Interpretations. It requires entities to allocate revenue to the identified performance obligations under a new five-step revenue recognition model and provides a basis for deciding whether revenue is to be recognised over time or at a point in time. One of the biggest challenges in applying AASB 15 is identifying 'distinct' performance obligations which is the cornerstone of the five step model (step 2). It is of paramount importance that performance obligations are correctly identified.

AASB 15 provides specific guidance around many application issues such as contracts with multiple deliverables, consideration payable to a customer, sales with a right of return, warranties, customer's unexercised rights and non-refundable upfront fees.

Other significant application issues under AASB 15 include:

- Variable consideration
- Licences
- Contract assets
- Customer options
- Significant financing components
- Contract modifications
- Possession vs control
- Principal vs agent

AASB 15 requires extensive disclosure which may overlap with historic disclosure requirements, but will require significant new information to be presented. The diagram below lists some of the key disclosure areas.


### AASB 16 *Leases* – Applicable to half-year reporting periods ending 30 June 2019.

AASB 16 represents a significant overhaul of lease accounting requirements, replacing AASB 117 *Leases* and a number of lease-related Interpretations for annual reporting periods beginning on or after 1 January 2019.

The new Standard:

- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term (i.e. less than 12 month term) and low-value asset leases;
- provides new guidance on the definition of "lease" and on the application of sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117 *Leases*; and
- requires significant new and additional disclosures about leases.

# Other financial reporting developments that are relevant to annual periods ending 30 June 2019

## ASIC focus areas for 30 June 2019

Australian Securities and Investments Commission (ASIC) has not announced focus areas for 30 June 2019 financial reports. However, the ASIC's focus areas are expected to be similar to those of 31 December 2018 annual reporting period, with potentially greater emphasis on the first time application of AASB 15 and AASB 9. The following are examples of expected areas of focus.

- Impact of new major accounting standards
- Impairment testing and asset values
- Revenue recognition
- Expense deferral
- Off-balance sheet arrangements
- Tax accounting
- Estimates and accounting policy judgements

Grant Thornton intends to release a TA alert once the 30 June 2019 focus areas are released by ASIC.

# Other financial reporting developments that are relevant to future periods

## Income of Not-for-Profit Entities - AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*

In December 2018 the AASB issued AASB 2018-8 which introduces a relief allowing Not-for-Profit (NFP) entities to not measure peppercorn leases at fair value for initial measurement purposes when transitioning to AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases*. Under the changes, NFP entities are allowed to measure peppercorn leases initially either at cost or fair value.

## Removal of special purpose financial statements for for-profit entities

Following on from its public consultation/redeliberation on Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, the AASB is progressing on its project to remove special purpose financial statements for for-profit entities in Australia.

This item was last discussed by the AASB at its April 2019 board meeting. It is expected that the AASB will issue an Exposure Draft by December 2019, proposing to remove special purpose financial statements for for-profit entities. At this stage, the intention of the AASB is to have the new requirements effective for annual reporting periods beginning on or after 1 July 2020

It is also expected that the AASB will release an Exposure Draft by June 2019 proposing to replace the existing Reduced Disclosure Requirements (RDR) with a new disclosure standard based on the disclosure in the IFRS for SMEs standard.

In conjunction with the legislative review of the Australian Charities and Not-for-profits Commission, the reporting requirements for not-for-profit entities are expected to be reviewed by the AASB as a separate project sometimes in the future.

## Increase in threshold for large proprietary companies

The Commonwealth Parliament has passed *Corporations Amendment (Proprietary Company Thresholds) Regulation 2019* on 4 April 2019 doubling the large proprietary company thresholds, effective from 1 July 2019. The table below includes the relevant threshold changes.

| Current thresholds | New thresholds |
|---|---|
| Consolidated revenue for the entity and its controlled entities for the financial year: >$25 million | Consolidated revenue for the entity and its controlled entities for the financial year: >$50 million |
| Consolidated gross assets >$12.5 million | Consolidated gross assets >$25 million |
| The Company and the entities it controls having at least 50 employees at the end of the financial year | The Company and the entities it controls having at least 100 employees at the 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.

### Corporate Governance

Following extensive stakeholder consultation, on 27 February 2019 the ASX Corporate Governance Council released its 4th edition of ASX Corporate Governance Principles and Recommendations which will be effective for annual periods beginning on or after 1 January 2020.

This latest edition seeks to address issues around culture, values and trust, against a backdrop of community scepticism towards business and a 2018 marked by corporate scandals and governance failings as highlighted at the Financial Services Royal Commission.

For more information on the 4th edition of ASX Corporate Governance Principles, refer to the ASX website.

## Further information

If you wish to discuss any of the information included in this Technical Accounting Alert, please contact your Grant Thornton Relationship Partner or a member of the National Assurance Quality Team at national.assurance.quality@au.gt.com.