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# Technical Accounting Alert

# TA 2020-11

## What's new for June 2020?

### 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 2020 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 June 2020. 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 2020.

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 are mandatory for the first time to annual and/or half-year reporting periods ending 30 June 2020, which are summarised overleaf.

## 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 2020? | Applicable for the first time to half-year ending 30 June 2020? |
|---|---|---|---|
| AASB 16 *Leases* | 1 January 2019 | ✓ | x |
| AASB 15 *Revenue from Contracts with Customers* [Only for not-for-profit entities] | 1 January 2019 | ✓ | N/A |
| AASB 1058 *Income of Not-for-Profit Entities* | 1 January 2019 | ✓ | N/A |
| AASB 1059 *Service concession Arrangements: Grantors* | 1 January 2020 | x | ✓ |
| AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* | 1 January 2019 | ✓ | N/A |
| AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments* | 1 January 2019 | ✓ | x |
| AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments* | 1 January 2019 | ✓ | 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 *Amendments to Australian Accounting Standards – 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 2018-3 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements* | 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 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* | 1 January 2019 | ✓ | x |
| AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* | 1 January 2020 | x | ✓ |
| AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* | 1 January 2020 | x | ✓ |
| AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* | 1 January 2019 | ✓ | x |
| AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* | 1 January 2020 | x | ✓ |
| AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059* | 1 January 2020 | x | ✓ |
| AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* | 1 January 2020 | x | ✓ |
| AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* | Annual periods ending on or after 30 June 2020 | ✓ | N/A |

| Standard / Interpretation | **Mandatory effective date** (Annual periods beginning on or after…) | Applicable for the first time to year ending 30 June 2020? | Applicable for the first time to half-year ending 30 June 2020? |
|---|---|---|---|
| AASB 2019-5 *Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia* | 1 January 2020 | x | ✓ |
| AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities* | 1 January 2019 | ✓ | x |
| AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations* | 1 January 2020 | x | ✓ |
| AASB 2019-8 *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases* | 1 January 2019 | ✓ | x |
| Interpretation 23 *Uncertainty Over Income Tax Treatments* | 1 January 2019 | ✓ | x |

## First time application to annual reporting periods ending 30 June 2020

Although a number of new and revised standards became effective for the annual/half-year periods ending 30 June 2020, this TA Alert focuses only on standards and interpretations with relatively significant changes. Other standards are unlikely to have any significant impact of entities.

### AASB 16 *Leases* – Applicable to annual reporting periods ending 30 June 2020

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 and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117; and
- requires significant new and additional disclosures about leases.

**Snapshot of the changes:**


*AASB issued Exposure Draft 300 (ED 300) COVID-19-related rent concessions- Proposed amendment AASB 16 to help lessee accounting during the pandemic.*

On 27 April 2020, the Australian Accounting Standard Board (AASB) issued ED 300 *COVID-19-Related rent Concessions – Proposed amendments to AASB 16* which incorporates International Accounting Standard Board (IASB) Exposure Draft ED/2020/2 *COVID-19-Related Rent Concessions – Proposed amendment to IFRS 16.*

On 28th May 2020, the International Accounting Standard Board (IASB) issued an amendment to IFRS 16 which exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to rent concessions received as a direct result of COVID-19 impacting payments due on or before 30 June 2021. The Australian Accounting Standard board is yet to issue an amendment in regards to the Exposure Draft 300.

For further information, refer to our TA Alert 2020-09 AASB issues *Exposure Draft 300 COVID-19 related Rent Concessions*.

### Interpretation 23 Uncertainty over Income Tax Treatments – Applicable to annual reporting period ending 30 June 2020

For income years beginning on or after 1 January 2019, entities will need to record their uncertain tax positions in their financial statements. This new Interpretation is a major conceptual extension to AASB 112 *Income Taxes* and requires the preparers of financial statements to consider the potential ramifications of tax accounting decisions, and potentially record additional income tax expense. As it is directly related to AASB 112, its impact is limited to "income taxes" as defined in that standard – for most entities this is limited to income taxes, withholding taxes and transfer pricing adjustments.

Specifically, Interpretation 23 requires entities to consider if they have applied any income tax treatments where there is potential uncertainty or where there is potential contention of that treatment by the tax authority (being the Australian Taxation Office (ATO) and, ultimately, the courts). If an entity concludes that it is probable (i.e. more than 50% likely) that said authorities would not accept that treatment, then it must quantify the potential exposure and record it in its calculation of current and deferred tax balances.

In making its assessment of the tax authority's view, the entity must assume that the tax authority will be privy to all related information applicable to all treatments. The practical implication of this is that where tax balances are adjusted as a result of Interpretation 23, the ATO could use this as an indicator to initiate their own tax audit procedures against the entity.

It is likely that the application of Interpretation 23 will require an extension of entities' internal tax risk and governance framework to address the additional accounting requirements, especially where Management and those charged with governance possess the appropriate documentation and the relevant tax expertise or skills to make reasonable judgements. This would also involve reviewing their documented consideration of any tax issues flagged by their external tax advisers during the year. For other less sophisticated entities, it may be more appropriate to coordinate with tax advisors to develop and maintain reporting frameworks to assist entities in their reporting obligations.

Both of these approaches presumes an entity has a strong tax governance framework already in place whether performed internally or externally. Where this is lacking, entities will struggle with applying Interpretation to a satisfactory level.

This requirement applies to all companies who prepare financial statements applying the Australian accounting standards.

### AASB 1058 *Income of Not-for-Profit Entities* – Applicable to annual reporting periods ending 30 June 2020

AASB 1058 contains the new income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15 *Revenue from Contracts with Customers*. These requirements supersede all the income recognition requirements relating to private sector NFP entities, and the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 *Contributions.*

Under the new income recognition model, a NFP entity first considers whether AASB 15 applies to a transaction or part of a transaction. If AASB 15 does not apply, then consider whether AASB 1058 applies.

In order for AASB 15 to apply to a transaction, the performance obligation(s) arising from the transaction needs to be 'enforceable' and 'sufficiently specific'. In determining whether a performance obligation is 'sufficiently specific', an entity needs to take into account all the conditions specified in the arrangement regarding the promised goods or services, including:

- the nature or type of the goods or services
- the cost or value of the goods or services
- the quantity of the goods or services
- the period over which the goods or services must be transferred.

Where AASB 15 does apply to a transaction or part of a transaction, the NFP entity applies the general principles in AASB 15 to determine the appropriate revenue recognition.

When AASB 15 does not apply to a transaction or part of a transaction, the NFP entity then considers whether AASB 1058 applies. AASB 1058 will apply when a NFP:

- enters into a transaction where the consideration to acquire an asset (including cash) that is significantly less than fair value principally to enable the NFP to further its objectives; and
- receives volunteer services (recognition of volunteer services is only mandatory to entities in the public sector).

When AASB 1058 applies, income is recognised as the NFP entity obtains control of the funds.

#### *Initial measurement of right of use assets for significantly below market leases*

AASB 16 and AASB 1058 allow NFP entities to initially measure right of use assets for significantly below market leases either at cost or fair value (as per the amendments in AASB 2018-8 *Right-of-Use Assets of Not-for-Profit Entities*). This accounting policy choice is made to each class of right-of-use assets for below-market leases on initial adoption of AASB 16 and AASB 1058, as well as new leases entered into from 1 January 2019.

### Disclosure of compliance with recognition and measurement requirements (NFP entities only)

In November 2019, the AASB issued AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements.*

AASB 2019-4 amends AASB 1054 *Australian Additional Disclosures* to add requirements for not-for-profit private sector entities that are required to apply AASB 1054 and are preparing special purpose financial statements to disclose information about those financial statements, including information that enables users of the financial statements to understand whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards, including AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures.*

This standard is effective for NFP entities for annual periods ending or after 30 June 2020.

## Other financial reporting developments that are relevant to annual periods ending 30 June 2020

### Financial reporting implications due to COVID-19

The recent COVID-19 outbreak has caused extensive disruptions to the entire global economy, in Australia, additional precautions were taken which limited the operating activities of businesses.

COVID-19 has also introduced many significant financial reporting issues that entities need to be across this reporting season. For more information, refer to Grant Thornton's publication entitled *Accounting implication of Coronavirus (COVID-19)* which considers key COVID-19-related accounting implications in detail.

Furthermore, in response to the COVID-19 pandemic ASIC has announced a 'no action' position for entities who are unable to hold Annual General Meetings (AGM's) and extended the financial reporting deadlines for the listed and unlisted entities having a financial year-ends from 31 December 2019 to 7 July 2020.

For further information, refer to the following TA Alerts:

- TA Alert 2020-07 *ASIC announces extension of AGM;*
- TA Alert 2020-08 ASIC releases 20-084MR – *ASIC to provide additional time for unlisted entity financial reports*; and
- TA Alert 2020-10 20-113MR *ASIC to further extend financial reporting deadlines for listed and unlisted entities*

### ASIC focus areas for 30 June 2020

Australian Securities and Investments Commission (ASIC) has not announced focus areas for 30 June 2020 financial reports. However, due to the ongoing COVID-19 pandemic, we expect that greater emphasis will be given to the COVID-19 pandemic focus areas and the first time application of AASB 16 and Interpretation 23.

#### *COVID-19 focus areas*

- Recognition and measurement
  - values of assets (including intangible assets, properties, inventories, receivables/loans, investments, other financial assets, contract assets and deferred tax assets)
  - liabilities (including provisions for onerous contracts, financial guarantees and restructuring)
- Disclosures
  - sources of estimation uncertainty
  - key assumptions and sensitivity analysis
  - operating and financial review (OFR) – underlying drivers of results, business strategies, risks and future prospects
- Other
  - going concern assessments and solvency
  - Subsequent events.

Grant Thornton intends to release a TA alert once the 30 June 2020 focus areas are released by ASIC.

### Increase in threshold for large proprietary companies

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

**Consolidated revenue for the financial year and the entities it controls: $25 million**

**Consolidated gross assets $12.5 million**

**The Company and the entities it controls haveing 50 employees at the end of the financial year**

**Consolidated revenue for the financial year and the entities it controls: $50 million**

**Consolidated gross assets $25 million**

**The Company and the entities it controls haveing 100 employees at the end of the financial year**

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

## Other financial reporting developments that are relevant to future periods

### Removal of special purpose financial statements and the introduction of simplified disclosure framework

The Australian Accounting Standards Board ("AASB") has released major reforms to Australian financial reporting requirements that:

- remove the ability to prepare special purpose financial statements ("SPFS") for certain for-profit entities; and
- introduce a new Tier 2 disclosure framework ("Simplified Disclosures") replacing the existing Reduced Disclosure Requirements ("RDR").

The new requirements were issued in the form of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Both of these standards are effective for annual periods beginning on or after 1 July 2021, with a requirement to restate comparatives (unless the changes are early adopted).

For further information, refer to our TA Alert 2020-06 *Removal of special purpose financial statements and the introduction of simplified disclosure framework* and our thought leadership article on the subject.

## 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 Financial Reporting Advisory Team at FRA@au.gt.com.