Technical Accounting Alert

TA 2020-17

What's new for December 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 31 December 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 22 December 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-year ending 31 December 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 31 December 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 31 December 2020?	Applicable for the first time to half-year ending 31 December 2020?
AASB 1059 *Service concession Arrangements: Grantors*	1 January 2020	✓	✓
AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*	1 January 2020	✓	✓
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020	✓	✓
AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020	✓	✓
AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*	1 January 2020	✓	✓
AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	1 January 2020	✓	✓
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*
AASB 2019-5 *Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	1 January 2020	✓	✓
AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations*	1 January 2020	✓	✓
AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*	1 June 2020	*x*	✓

First time application to half-year reporting periods ending 31 December 2020

AASB issued an amendment to AASB 16 Leases to simplify lessee accounting during the pandemic.

In June 2020, the Australian Accounting Standard Board issued *AASB 2020-4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions* which incorporates the International Accounting Standard Board's (IASB) standard *COVID-19-Related Rent Concessions – Amendment to IFRS 16* issued on 28 May 2020*.*

The amendment allows lessees to elect to not apply lease modification accounting when rent concessions (including deferrals or abatements) are received as a direct consequence of COVID-19 pandemic. It applies to rent concessions received as a direct result of COVID-19 impacting only payments due on or before 30 June 2021.

For further information, refer to our AASB 16 Lease Modifications: Point of reference for preparers of financial reports.

Increase in reporting threshold for large proprietary companies

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

Consolidated revenue for the financial year and the entities it controls: $25 million	→	**Consolidated revenue for the financial year and the entities it controls: $50 million**
Consolidated gross assets $12.5 million		**Consolidated gross assets $25 million**
The Company and the entities it controls haveing 50 employees at the end of the financial year		**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 developments that are relevant to annual periods ending 31 December 2020

Payments Times Reporting Act 2020

While not directly related to financial reporting, on 14 October 2020, the Australian Government introduced the Payment Times Reporting Scheme (PTRS). The PTRS aims to improve payment times for Australian small businesses.

Under the PTRS, large businesses (as defined in the act) and large government enterprises will need to report their small business payment terms and times. The goals of the PTRS are to:

- Increase transparency around large businesses' payment performance;
- Help small businesses decide who to do business with;
- Create incentives for improved payment times and practice; and
- Help the public make decisions about the large businesses they buy from.

The PTRS applies to:

- Large businesses and certain government enterprises with a total annual income of over $100 million;
- Controlling corporations where the combined total annual income for all members is more than $100 million; and
- Businesses with a total annual income greater than 10 million and that are part of a group headed by a controlling corporation with a collective income greater than $100 million.

Reporting under the PTRS commences for semi-annual periods commencing on 1 January 2021.

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 January 2021.

For further information, refer to the following TA Alerts:

- TA Alert 2020-07 20-068MR – *Guidelines for meeting upcoming AGM and financial reporting requirements;*
- TA Alert 2020-08 20-084MR – *ASIC to provide additional time for unlisted entity financial reports*;
- TA Alert 2020-10 20-113MR *ASIC to further extend financial reporting deadlines for listed and unlisted entities;* and
- TA Alert 2020-16 *20-276MR ASIC to further extend financial reporting deadlines for listed and unlisted entities*.

ASIC focus areas for 31 December 2020

Australian Securities and Investments Commission (ASIC) has released information about focus areas for its review of 31 December 2020 financial reports (ASIC Media Release 20-352MR: ASIC highlights focus areas for 31 December 2020 financial reports under COVID-19 conditions).

The focus areas announced in relation to 31 December 2020 are discussed below.

The focus areas primarily address the accounting and reporting implications of the COVID-19 pandemic and are a continuation of ASIC's 30 June 2020 focus areas, particularly as it relates to asset values, provisions, solvency and going concern assessments, events occurring after year end and before completing the financial report, and disclosures in the financial report and Operating and Financial Review (OFR).

Preparers of financial reports must take into consideration any continuous disclosure requirements and the obligation to keep the market informed. Useful and meaningful disclosure about the business impacts and potential uncertainties are considered of particular importance to investors. Forecasts and information utilised in developing these forecasts should be reasonable and supportable, and neither overly optimistic nor pessimistic but instead be realistic. Where appropriate, a range of outcomes should be considered and probability weighted.

Accounting estimates and judgements: asset values, provisions and going concern

ASIC has identified a significant number of inputs to consider when forming estimates or making judgements, such as those required when assessing asset or provision values, or when considering the appropriateness of the going concern assumption.

These factors include:

- business and domestic/international economic factors;
- industry-specific factors;
- impact on customers, borrowers and lessees;
- impact on supply chains;
- exposures to overseas operations, transactions and currencies;
- short-term versus long-term conditions;
- duration of containment measures and business closures;
- extent and duration of assistance and support by governments and others;
- impact on short-term operating cash flows;
- debt refinancing, borrowing covenants, lender forbearances and liquidity support;
- modifications of debt and lease contracts;
- capital raising; and
- management plans and response to the pandemic impacts.

These factors apply not only to the entity, but its counterparties including

- borrowers and debtors of the entity; and
- key suppliers of the entity.

The above list is noted by ASIC as not being exhaustive.

Accounting estimates: impairment of non-financial assets

One of the key areas of focus mentioned by ASIC is the recoverability of the carrying amounts of assets, for example, goodwill, property and equipment, and other intangible assets, these matters should also be considered carefully in the context of the recently adopted AASB 16: *Leases*.

Specifically, ASIC identifies that entities should carefully consider whether indicators of impairment exist in the current environment that will require impairment testing fir non-financial assets not subject to mandatory annual impairment testing.

Preparers of financial reports and directors of entities should consider the following:

- whether impairment indicators are present;
- whether assumptions supporting the recoverable amount of non-financial assets are appropriate;
- whether, given uncertainties, it is necessary to prepare probability-weighted scenarios for use in determining the recoverable amount of non-financial assets; and
- the extent of appropriate disclosure given the presence of uncertainties, including the extent of disclosure of estimation uncertainties, key assumptions, sensitivity analysis or information on probability-weighted scenarios.

Accounting estimates: fair value of property

ASIC has highlighted that the fair value of commercial and residential properties may be subject to adverse impacts as a result of:

- changes to work practices affecting future space requirements of tenants;
- changes to consumer preferences as it relates to traditional and online shopping;
- economic or industry impacts on future tenancy;
- changes in the financial condition of existing tenants; and
- restructuring of agreements of tenants.

ASIC's FAQs are noted as discussing the accounting for rental concessions for both lessors and lessees.

Accounting estimates: expected credit losses

ASIC has highlighted that entities should consider the following matters when calculating expected credit losses as required by AASB 9: *Financial* Instruments:

- that the appropriateness of key assumptions used in determining expected credit losses are reasonable and supportable;
- that reliable and up-to-date information about the circumstances of borrowers and debtors is utilised;
- that short-term liquidity issues for borrowers and debtors, as well as the financial condition and earning capacity of borrowers and debtors, are considered;
- that a mechanistic approach is not used when determining expected credit losses for loans or for receivables. Past models and historical experience may not be representative of current expectations. This applies to all loans and receivables, including a bank's loan assets and a manufacturer's trade receivables. A probability weighting of possible scenarios may be needed;
- whether the rebuttable presumptions in the relevant accounting standard for loans in arrears for 30 days or 90 days being moved into higher categories for assessing credit losses can be rebutted under current loan repayment deferral arrangements for some borrowers who may have short-term liquidity issues but who are expected to meet their obligations thereafter; and
- Disclosure of estimation uncertainties and key assumptions should be appropriate.

Accounting estimates: impairment of other assets

ASIC has highlighted that other assets, such as inventories, deferred tax assets and investments in unlisted entities, will be of particular focus given the potential for declines in value.

Provisions

ASIC has highlighted that entities should consider whether provisions for matters such as onerous contracts, financial guarantees given and committed restructurings are necessary.

Disclosure

ASIC has provided a detailed list of disclosure it continues of particular importance in the current environment. This includes:

General considerations

- When considering the information that should be disclosed in the financial report and OFR, directors and preparers should put themselves in the shoes of investors and consider what information investors would want to know.
- Disclosures should be specific to the circumstances of the entity, its businesses, its assets and its financial position and performance.

Disclosures in the financial report

- Uncertainties may lead to a wider range of valid judgements on asset values and estimates. The financial report should disclose uncertainties, key assumptions and sensitivities. This will assist investors in understanding the approach taken, understanding potential future impacts and making comparisons between entities. Entities should also explain where uncertainties have narrowed since the financial report or the half-year to 30 June 2020.
- Disclosures may include information on probability-weighted scenarios supporting judgements on asset values and other assessments.
- The appropriate classification of assets and liabilities between current and non-current categories on the statement of financial position should be considered. That may have regard to matters such as maturity dates, payment terms and compliance with debt covenants.

Disclosures in the OFR

- The OFR should complement the financial report and tell the story of how the entity's businesses are impacted by the COVID-19 pandemic. The overall picture should be clear and understandable, and be supported by information that will enable investors to understand the significant factors affecting the entity, its businesses and the value of its assets.
- The OFR should explain the underlying drivers of the results and financial position, as well as risks, management strategies and future prospects.
- Significant factors not attributable to the COVID-19 pandemic should be included and given appropriate prominence. For example, asset impairment or reduced performance may be due in whole or part to other factors that were already present or developing such as changes in consumer preferences and demand for products, new competitors or increased supply costs.

Assistance and support by governments and others

- Entities should appropriately account for each type of support and assistance from government, lenders, landlords and others. Both the financial report and OFR should prominently disclose material amounts, the commencement date and expected duration of support or assistance. Examples include JobKeeper, land tax relief, loan deferrals and restructuring, and rent deferrals and waivers.

Non-IFRS financial information

- Any non-IFRS profit measures in the OFR or market announcements should not be presented in a potentially misleading manner.

- Where a net tangible asset figure is presented by a lessee, there should be a prominent footnote on the same page explaining whether some, all or no lease right-of-use assets have been included.
- Disclosing the dollar impact on EBITDA of adopting the new lease standard. EBITDA no longer includes an expense for lease payments made by a lessee under leases that would have previously been classified as operating leases.

Disclosure in half-year reports

- Disclosure will also be key for half-year financial reports and directors' reports as at 31 December 2020. These half-year reports may need to include significant disclosure about developments and continuing impacts since 30 June 2020 of COVID-19 conditions and other significant factors.

ASIC's FAQs provide more information on disclosures in the financial report, disclosures in the OFR, and the use of non-IFRS financial information.

Reporting processes

ASIC have highlighted that the basis for judgements on accounting estimates and forward-looking information is made should be properly documented at the time the judgement is made and disclosed as appropriate. Documenting these assumptions reduces the risk of the application of hindsight (which is not consistent with the Australian Accounting Standards) and will assist when information utilised is reviewed by others at a later point in time.

ASIC notes that all such judgements should have a reasonable basis, and continuous disclosure requirements should be considered should circumstances change.

For the original text on the ASIC website, readers may refer to https://asic.gov.au/about-asic/news-centre/find-a-media-release/2020-releases/20-325mr-asic-highlights-focus-areas-for-31-december-2020-financial-reports-under-covid-19-conditions/

A Technical Alert on our Local Technical and financial reporting alerts landing page will be issued shortly.

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.