

Reduced Disclosure Requirements (RDR)

The last time for financial reports

December 2020



Financial reports for annual periods ending up to 30 June 2021

The dust is settling after a dynamic period of accounting change, but preparers are now facing new challenges with the financial reporting implications arising as a result of the COVID-19 pandemic. This publication highlights potential accounting considerations for those preparing General Purpose Financial Statements (GPFS) complying with Reduced Disclosure Requirements (RDR) for years ending 31 December 2020 (30 June 2021).

Australia has a two-tier reporting system for reporting entities required to prepare a GPFS. This differential reporting regime enables certain entities (Tier 2) to minimise the costs involved in meeting reporting requirements by reducing the disclosures they provide. Whether an entity is Tier 2 is dependent upon, amongst other criteria, whether or not it is publicly accountable.

Australian RDR illustrative annual financial statements

After an intense period of accounting change, no new major accounting standards become effective for reporting periods commencing from 1 January 2020. This publication should be read in conjunction with our illustrative financial statements [Good Group \(Australia RDR\) Pty Ltd \(December 2019 edition\)](#) and [Good Group \(Australia\) Limited \(December 2020 edition\)](#). We do not intend to publish an updated edition of Good Group (Australia RDR) Pty Ltd for 31 December 2020 (30 June 2021).

Considerations for the upcoming reporting season

Whilst not as significant as the accounting changes experienced in recent years, there are some areas of financial reporting which may be challenging for preparers.

New accounting standards and interpretations

The following standards are effective for annual periods beginning on or after 1 January 2020:

- ▶ AASB 2019-6 Amendments to AASs - *Definition of a Business*
- ▶ AASB 2019-3 Amendments to AASs - *Interest Rate Benchmark Reform*
- ▶ AASB 2018-7 Amendments to AASs - *Definition of Material*

We recommend preparers refer to [Good Group \(Australia\) Limited \(December 2020 edition\)](#) and consider the impact these new standards may have on the entity. Also illustrated is the early adoption of AASB 2020-4

Amendments to AASs - Covid-19 Related Rent Concessions, which became effective for annual periods beginning on or after 1 June 2020.

Accounting impacts of COVID-19

The COVID-19 pandemic has significantly impacted the world economy, causing volatility in financial and commodities markets, historically low-interest rates, lost revenue, an increase in unemployment and disrupted supply chains. In response, the Australian government has issued a broad package of interventions such as JobKeeper payments, infrastructure investment and tax cuts. Banks have also been responding by providing relief on borrower repayments. In addition the Australian Securities and Investments Commission (ASIC) published [frequently asked questions](#) on financial reporting matters in relation to COVID-19. This also includes some comments regarding the operating and financial review (OFR) section in the Directors' Report.

Our [Good Group \(Australia\) Limited \(December 2020 edition\)](#) includes commentary on some areas we have observed being impacted more significantly by the effects of the pandemic:

- ▶ Operational and financial review in the Directors' Report
- ▶ Basis of preparation - going concern
- ▶ Basis of preparation - accounting judgements, estimates and assumptions
- ▶ Impairments
- ▶ Income tax
- ▶ Investment properties

- ▶ Financial instruments
- ▶ Inventories
- ▶ Rent concession
- ▶ Pension plans
- ▶ Events after the reporting period

We recommend preparers consider the commentary around the above areas, including in the Directors' Report.

Other areas that may need to be considered include:

- ▶ Government grants
- ▶ Liabilities from insurance contracts
- ▶ Leases
- ▶ Insurance recoveries
- ▶ Onerous contract provisions
- ▶ Fair value measurement
- ▶ Revenue recognition
- ▶ Share-based payments
- ▶ Alternative performance measures and disclosures

Further guidance related to the accounting implications of COVID-19 can be found in the EY publications for [Accounting considerations of the coronavirus pandemic](#) and [Accounting for COVID-19 related rent concessions](#).

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via [ey.com/privacy](#). For more information about our organization, please visit [www.ey.com](#)

© 2020 Ernst & Young, Australia
All Rights Reserved.

APAC No. AUNZ00001555

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

What lies beyond

In 2020, the Australian Accounting Standard Board (AASB) issued AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* that replaces the current RDR with Simplified Disclosures (SDS). Entities preparing GPFS (Tier 2) must adopt SDS for annual periods beginning on or after 1 July 2021.

Overall, SDS will attract less disclosures than RDR, but there are some new disclosures amongst the changes. We recommend that preparers initiate the transition work from RDR to SDS on a timely basis. This may require collation of additional information. It is also an opportunity to consider improving the quality of disclosures. We recommend our publication [Effective Financial Reporting](#) in this regard.

Early adoption of SDS is permitted. Therefore, a GPFS (Tier 2) for years ending up to 30 June 2021 can be prepared either by continuing to apply RDR or by early adopting SDS. For those considering the preparation of GPFS (Tier 2) for the first-time - because the entity is now a reporting entity (and must change from preparing Special Purpose Financial Statements (SPFS)), or voluntarily decides to no longer prepare a SPFS, we recommend by-passing RDR and directly adopt SDS. Further information can be found in these EY publications; [The time has come](#), and [Good Group \(Australia SDS\) Pty Ltd illustrative financial statements](#). These can be found, along with other financial reporting publications, on our website at https://www.ey.com/en_au/ifrs-international-financial-reporting-standards

To discuss further, please contact your EY advisor.