New Australian accounting pronouncements

For 30 June 2021 year-end reports

New and changed requirements

We provide you an overview of the accounting pronouncements issued *as of 30 June 2021* that:

- **Must** be applied for the first time for 30 June 2021 year-ends
- **May** be applied early for 30 June 2021 year-ends

Implementing new accounting standards often impacts entities beyond their financial reporting function. We hope that this publication will:

- Support you in having better conversations about accounting changes with your stakeholders
- Help you respond in a timely manner to all accounting changes in your next financial report
- Keep you focused on future changes in financial reporting and their impact on your implementation efforts

Accounting change disclosures

Financial reports are required to:

- Present the impact of initial application of new accounting standards applied
- Disclose the possible impact of initial application of forthcoming accounting standards not yet applied, or otherwise indicate the reason for not doing so

However, Tier 2 entities applying either the *Reduced Disclosure Requirements* or *Simplified Disclosures* are not required to disclose the possible impact of accounting pronouncements issued but not yet effective.

Remain alert to further changes

This publication is updated as of 30 June 2021. Any pronouncements issued afterwards (up until the date of authorisation of your financial report) must also be considered. Our *In Balance* publications will keep you informed of further changes.

Contents

Financial instruments

AASB 2019-3 *Amendments to Australian Accounting Standards (AASs) – Interest Rate Benchmark Reform [Phase 1]*

Effective for annual reporting periods beginning on or after 1 January 2020

Interbank offered rates (IBOR) are benchmark interest rates referenced in financial products worldwide. Examples include:

- A loan that incurs interest quarterly at 3-month LIBOR plus a margin
- An interest rate swap involving the exchange of fixed-rate monthly interest payments for variable interest payments based on monthly BBSW plus a margin

Due to IBORs' widespread usage, it has been observed that the market-wide reform of such interest rate benchmarks, including its replacement with alternative benchmark rates, could have significant impacts on financial reporting. Addressing the financial reporting effects of IBOR reform comes in two phases.

The first phase deals with urgent issues affecting financial reporting **before** the replacement of existing interest rate benchmarks. It introduces amendments to AASB 7 *Financial Instruments: Disclosures*, AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement*, providing mandatory temporary relief enabling hedge accounting to continue during the period of uncertainty before existing interest rate benchmarks are replaced with alternative "nearly risk-free" benchmarks.

These amendments apply retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated, nor can any hedge relationships be designated with the benefit of hindsight.

The second phase deals with issues that might affect financial reporting upon replacement of existing interest rate benchmarks – refer to the next page.

Resource

IFRS Developments Issue 152: IBOR reform: publication of the phase one amendments and commencement of phase two (September 2019)

Applies to all entities

Financial instruments

AASB 2020-8 *Amendments to AASs – Interest Rate Benchmark Reform – Phase 2*

Effective for annual reporting periods beginning on or after 1 January 2021

The second phase of the project in addressing the financial reporting effects of IBOR reform has been recently completed. This phase focuses on issues that might affect financial reporting **upon replacement** of existing interest rate benchmarks, and amends the requirements in AASB 9, AASB 139, AASB 7, AASB 4 *Insurance Contracts* and AASB 16 *Leases*.

The objective of the amendments is to minimise financial reporting consequences of a change in benchmark interest rates that Australian Accounting Standards may otherwise require, such as the derecognition or remeasurement of financial instruments, and the discontinuation of hedge accounting.

Provided that the contractual interest rate will be substantially similar before and after the replacement, the amendments:

- Require changes to future cash flows that are directly required by the IBOR reform to be treated as if they were changes to a floating interest rate. Applying this expedient would not affect the carrying amount of the financial instrument. It also relieves entities of the need to assess whether modification or derecognition accounting applies under AASB 9 and AASB 139.
- Require changes to lease payments that are directly caused by the IBOR reform to be accounted for as a remeasurement of the lease liability using a revised discount rate – being the original discount rate adjusted only for changes caused by the IBOR reform. A corresponding adjustment to the right-of-use-asset follows. This expedient exempts entities from remeasuring the lease liability using a newly determined discount rate otherwise required for lease modifications.

Entities would not have to discontinue hedge accounting due to IBOR reform, provided that the hedge continues to meet other hedge accounting criteria.

Insurers who are still applying AASB 139 would also be subject to the same mandatory reliefs.

Entities are required to provide disclosures that help readers understand the effect of the IBOR reform on the financial statements and risk management strategies, including the progress in completing the transition to alternative benchmark rates and how such transition is being managed.

These amendments apply retrospectively. However, restatement of prior periods is not required but permitted only if such restatement is possible without the use of hindsight. Earlier application of the amendments is permitted.

Resources

Applying IFRS: IBOR Reform (Updated May 2021)

IFRS Developments Issue 174: IASB completes its IBOR reform programme (September 2020)

Financial instruments

AASB 2020-3[1] *Amendment to AASB 9 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Part of Annual Improvements 2018-2020 Cycle)*

Effective for annual reporting periods beginning on or after 1 January 2022

Under AASB 9, an existing financial liability that has been modified or exchanged is considered extinguished when the contractual terms of the new liability are substantially different, measured by the "10 per cent" test. That is, when the present value of the cash flows under the new terms, including any fees paid or received, is at least 10 per cent different from the present value of the remaining cash flows of the original financial liability.

The amendment to AASB 9 clarifies that fees included in the 10 per cent test are limited to fees paid or received between the borrower and the lender, including amounts paid or received by them on the other's behalf. When assessing the significance of any difference between the new and old contractual terms, only the changes in contractual cash flows between the lender and borrower are relevant. Consequently, fees incurred on the modification or exchange of a financial liability paid to third parties are excluded from the 10 per cent test.

These amendments are applied prospectively. Earlier application is permitted.

[1] Refer to the Catalogue for the title and topics covered by this standard.

Group accounts

AASB 2018-6 *Amendments to AASs - Definition of a Business*

Effective for annual reporting periods beginning on or after 1 January 2020

The definition of a business helps entities to distinguish business combinations from asset purchases. Business combinations are accounted for using the acquisition method, which, among other things, may give rise to goodwill. Accounting treatments for other types of transactions may also be affected, depending on whether the transaction involves a business (e.g., A loss of control transaction where a retained interest is accounted for using the equity method).

With the aim of helping companies determine whether an acquired set of activities and assets is a business, the amendments to AASB 3 *Business Combinations*:

- Clarify the minimum requirements for a business to exist
- Remove the assessment of whether market participants are capable of replacing missing elements of a business
- Provide guidance to help entities assess whether an acquired process is substantive
- Narrow the definitions of a business and of outputs
- Introduce an optional fair value concentration test to identify a business

These amendments are applied prospectively.

Resource

IFRS Developments Issue 137: IASB issues amendments to the definition of a business in IFRS 3 (October 2018)

AASB 2014-10 *Amendments to AASs - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Effective for annual reporting periods beginning on or after 1 January 2022[2]

The amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

These amendments are applied prospectively. Earlier application is permitted.

[2] AASB 2017-5 *Amendments to AASs - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* deferred the effective date of AASB 2014-10 to annual reporting periods beginning on or after 1 January 2022 instead of 1 January 2018.

Applies to all entities

Income taxes

AASB 2021-5 *Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Effective for annual reporting periods beginning on or after 1 January 2023

AASB 112 *Income Taxes* requires entities to account for income tax consequences when economic transactions take place, and not at the time when income tax payments or recoveries are made. Accounting for such tax consequences, means entities need to consider the differences between the tax rules and the accounting standards. These differences could either be:

- Permanent – e.g., when tax rules do not allow a certain expense to **ever** be deducted; or
- Temporary – e.g., when tax rules treat an item of income as taxable in a period later than when included in the accounting profit.

Deferred taxes representing amounts of income tax payable or recoverable in the future must be recognised on temporary differences unless prohibited by AASB 112 in certain circumstances. One of these circumstances, known as the initial recognition exception, applies when a transaction affects neither accounting profit nor taxable profit, and is not a business combination. Views differ about applying this exception to transactions that, on initial recognition, create both an asset and liability (and could give rise to equal amounts of taxable and deductible temporary differences) such as:

- Recognising a right-of-use asset and a lease liability when commencing a lease
- Recognising decommissioning, restoration and similar liabilities with corresponding amounts included in the cost of the related asset

Some entities have previously recognised deferred tax consequences for these types of transactions, having concluded that they did not qualify for the initial recognition exception. The amendments to AASB 112 clarify that the exception would not normally apply. That is, the scope of this exception has been narrowed such that it no longer applies to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The amendments to AASB 112:

- Apply to transactions that occur on or after the beginning of the earliest comparative period presented; and
- Require entities to also recognise deferred tax for all temporary differences related to leases, decommissioning, restoration and similar liabilities at the beginning of the earliest comparative period presented.

The cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

AASB 1 *First-time Adoption of Australian Accounting Standards* was amended to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to Australian Accounting Standards, despite the exception set out in AASB 112.

Earlier application of the amendments is permitted.

Resource

IFRS Developments Issue 191: IASB clarifies deferred tax accounting for leases and decommissioning obligations (May 2021)

Insurance contracts

AASB 17 *Insurance Contracts*

Effective for annual reporting periods beginning on or after 1 January 2023[3]

AASB 17 replaces AASB 4, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for for-profit entities. AASB 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

In contrast to the requirements in AASB 4, which are largely based on grandfathering previous local accounting policies, AASB 17 provides a comprehensive accounting model for insurance contracts. The core of AASB 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- The concept of a Contractual Service Margin (CSM), representing the unearned profit on the insurance contracts to be recognised in profit or loss over the service period
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining service period
- The effect of changes in discount rates are reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet

Entities are required to adopt AASB 17 using the full retrospective approach, however, if this is impracticable for a group of insurance contracts, either the modified retrospective approach or fair value approach may be used.

Earlier application is permitted, provided that the entity also applies AASB 9 on or before the date it first applies AASB 17.

AASB 17 does not apply to superannuation entities applying AASB 1056 *Superannuation Entities* and not-for-profit public sector entities. The AASB is assessing the applicability of AASB 17 to not-for-profit public sector entities; in November 2017, the AASB issued Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*.

Resources

Insurance Accounting Alert (June 2020)

Applying IFRS 17: A closer look at the new Insurance Contracts Standard (June 2021)

[3] AASB 2020-5 *Amendments to AASs – Insurance Contracts* (see next page) deferred the effective date of AASB 17 by two years to annual reporting periods beginning on or after 1 January 2023.

Insurance contracts

AASB 2020-5 *Amendments to AASs – Insurance Contracts*

Effective for annual reporting periods beginning on or after 1 January 2021

To aid implementation of the new insurance standard, the following key amendments were introduced:

- Deferring the effective date of AASB 17 for insurers by two years to annual periods beginning on or after 1 January 2023.
- AASB 4 was likewise amended to extend the expiry date of the temporary exemption from applying AASB 9 to annual periods beginning on or after 1 January 2023. This extension allows for continuing use of AASB 139 alongside AASB 4, AASB 1023 and AASB 1038 until AASB 17 becomes effective.
- Excluding from the scope of AASB 17 certain credit card contracts that provide insurance coverage for purchases made using the credit card
- Providing an election to apply either AASB 17 or AASB 9 to contracts such as loans that include an agreement by the lender to compensate the borrower - by waiving some or all the payments due from the borrower - if a specified uncertain event occurs (for example, if the borrower dies)
- Requiring insurance acquisition cash flows (such as commissions paid to brokers) to be allocated to related expected contract renewals, recognising those cash flows as an asset until contract renewal takes place
- Requiring the expected profit on insurance contracts to be recognised in a pattern acknowledging both insurance coverage and any included investment-return or investment-related services
- Allowing the use of the risk mitigation accounting option when reinsurance contracts or non-derivative financial instruments measured at fair value through profit or loss, are used to mitigate the effects of the time value of money and other financial risks
- Reducing a potential accounting mismatch by requiring the holder of a reinsurance contract to recognise a gain on that contract when it recognises a loss on initial recognition of an onerous group of insurance contracts covered by the reinsurance contract, or on the addition of further onerous contracts to that group
- Simplifying the presentation of insurance and reinsurance contract assets and liabilities in the statement of financial position using broader portfolios of insurance contracts rather than narrower groups of insurance contracts
- Introducing additional transition relief mechanisms

Resource

Insurance Accounting Alert (June 2020)

Applies to all entities

Leases

AASB 2020-4 *Amendments to AASs – Covid-19-Related Rent Concessions*

Effective for annual reporting periods beginning on or after 1 June 2020

Due to the covid-19 pandemic, many lessors have granted rent concessions to lessees that impact lease payments. Rent concessions granted by a lessor can take many forms, including any combination of:

- A rent payment holiday;
- A reduction in lease payments for a period of time;
- A deferral of payments to a later date; or
- Other arrangements providing rent relief.

A concession might also include a change to the lease term.

From the lessee's perspective, a change in lease payments that **was** contemplated in the original terms and conditions of the lease would **not** be accounted for as a lease modification. For example, it might be treated as a variable lease payment, with the effect of the rent concession recognised in profit or loss. In contrast, accounting for a lease modification generally requires a lessee to remeasure the lease liability by discounting the revised lease payments using a new discount rate.

Concerns were raised that assessing whether covid-19 rent concessions are lease modifications could be challenging, compounding the AASB 16 implementation work lessees have recently undertaken. Consequently, AASB 16 was amended, allowing lessees to **not** account for rent concessions as lease modifications, provided certain conditions are met.

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic, and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021[4]; and
- There is no substantive change to other terms and conditions of the lease.

Once elected, the practical expedient is required to be applied consistently to all lease contracts with similar characteristics and in similar circumstances.

The amendment to AASB 16 is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the beginning of the annual reporting period in which the lessee first applies the amendment.

Similar relief was not provided to lessors for several reasons, including the fact that AASB 16 did not introduce significant changes to lessor accounting.

Resources

Applying IFRS: Accounting for covid-19 related rent concessions (updated April 2021)

IFRS Developments Issue 170: IASB amends IFRS 16 Leases for covid-19 related rent concessions (May 2020)

[4] AASB 2021-3 *Amendments to AASs – Covid-19-Related Rent Concessions beyond 30 June 2021* extends the application of the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided that the other conditions are met. See next page for further discussion.

Leases

AASB 2021-3 *Amendments to AASs – Covid-19-Related Rent Concessions beyond 30 June 2021*

Effective for annual reporting periods beginning on or after 1 April 2021

In light of many other challenges lessees faced during the covid-19 pandemic, AASB 16 was amended to extend the availability of the practical expedient to **not** account for covid-19-related rent concessions as lease modifications by one year. Provided all other conditions[5] are met, this expedient can be applied to rent concessions that reduce only lease payments originally due on or before 30 June 2022.

A lessee that has **previously** established an accounting policy that applied such practical expedient would be required to apply the extended scope of the practical expedient to eligible contracts with similar characteristics and in similar circumstances.

A lessee that has not done so previously can still decide whether to apply the practical expedient or not.

The amendment to AASB 16 is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the beginning of the annual reporting period in which the lessee first applies the amendment. Earlier application of the amendments is permitted.

Resource

IFRS Developments Issue 189: IASB extends relief for COVID-19 related rent concessions (April 2021)

[5] See discussion under AASB 2020-4 for the list of conditions that are required to be met before a lessee can apply the practical expedient.

Applies to all entities

Other topics

Conceptual Framework for Financial Reporting

AASB 2019-1 *Amendments to AASs – References to the Conceptual Framework*

Effective for annual reporting periods beginning on or after 1 January 2020

The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the *Conceptual Framework* is to:

- Assist in the development of accounting standards;
- Help preparers develop consistent accounting policies where there is no applicable standard in place; and
- Assist all stakeholders to understand the standards better.

The *Conceptual Framework* is not a standard, and none of the concepts override those in any standard or any requirements in a standard.

The application of the *Conceptual Framework* is at present limited to for-profit entities. On the other hand, the *Framework for the Preparation and Presentation of Financial Statements* (July 2004) (*Framework*) will continue to apply to not-for-profit entities.

The revised *Conceptual Framework* includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular, the definitions of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Two exemptions to the application of the *Conceptual Framework* were provided:

- When developing accounting policies for regulatory account balances using the previous *Framework*.

  Requiring entities to continue applying the previous *Framework* when developing or revising accounting policies for regulatory account balances prevents unhelpful and unnecessary disruption for both preparers and users. It avoids revising accounting policies for regulatory account balances twice within a short time frame – once for the revised *Conceptual Framework* and again when a revised standard on rate-regulated activities is issued.[6]

- When applying AASB 3, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the previous *Framework*, and not the definitions in the revised *Conceptual Framework*.

  In some cases, applying the revised definitions might change which assets and liabilities qualify for recognition in a business combination. As a consequence, post-acquisition accounting required by other standards could lead to immediate derecognition of such assets or liabilities, causing 'day 2 gains or losses' to arise, which do not depict economic gains or losses. The IASB has since assessed how IFRS 3 can be updated for the revised definitions, without these unintended consequences – refer to the next page.

Resource

[Applying IFRS: IASB issues revised Conceptual Framework for Financial Reporting (April 2018)]

[6] The IASB has issued an exposure draft *Regulatory Assets and Regulatory Liabilities* which proposes to give investors better information about the financial performance of companies that are subject to rate regulation. Comment letters are due by 30 July 2021.

Other topics

AASB 2020-3 *Amendments to AASB 3 - Reference to the Conceptual Framework*

Effective for annual reporting periods beginning on or after 1 January 2022

The IASB's assessment of applying the revised definitions of assets and liabilities in the *Conceptual Framework* to business combinations showed that the problem of day 2 gains or losses would be significant only for liabilities that an acquirer accounts for after the acquisition date by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*. The Board updated IFRS 3 in May 2020 for the revised definitions of an asset and a liability and excluded the application of the *Conceptual Framework* to liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21.

The AASB released the equivalent amendments to AASB 3 in June 2020.

These amendments are applied prospectively. Earlier application is permitted.

Resource

IFRS Developments Issue 169: Amendments to IFRS 3 - Reference to the Conceptual Framework (May 2020)

AASB 2020-1 *Amendments to AASs - Classification of Liabilities as Current or Non-current*

Effective for annual reporting periods beginning on or after 1 January 2023[7]

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 *Presentation of Financial Statements* to clarify the requirements for classifying liabilities as current or non-current. Specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management intention or expectation does not affect classification of liabilities.
- In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

These amendments are applied retrospectively. Earlier application is permitted.

Resource

IFRS Developments Issue 159: Amendments to classification of liabilities as current or non-current (Updated July 2020)

[7] AASB 2020-6 *Amendments to AASs - Classification of Liabilities as Current or Non-current - Deferral of Effective Date* pushed back the effective date of AASB 2020-1 by one year to annual reporting periods beginning on or after 1 January 2023.

Other topics

AASB 2018-7 *Amendments to AASs – Definition of Material*

Effective for annual reporting periods beginning on or after 1 January 2020

The amendments align the definition of 'material' across AASB 101 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments are applied prospectively.

Resource

IFRS Developments Issue 138: IASB issues amendments to the definition of material (November 2018)

AASB 2021-2[8] *Amendments to AASB 7, AASB 101, AASB 134 Interim Financial Reporting and AASB Practice Statement 2 Making Materiality Judgements*[9] *– Disclosure of Accounting Policies*

Effective for annual reporting periods beginning on or after 1 January 2023

The amendments to AASB 101 require disclosure of **material** accounting policy information, instead of **significant** accounting policies. Unlike 'material[10]', 'significant' was not defined in Australian Accounting Standards. Leveraging the existing definition of material with additional guidance is expected to help preparers make more effective accounting policy disclosures. The guidance illustrates circumstances where an entity is likely to consider accounting policy information to be material. Entity-specific accounting policy information is emphasised as being more useful than generic information or summaries of the requirements of Australian Accounting Standards.[11]

The amendments to AASB Practice Statement 2 supplement the amendments to AASB 101 by illustrating how the four-step materiality process can identify material accounting policy information.

Earlier application of the amendments is permitted.

Resource

IFRS Developments Issue 187: The Disclosure Initiative - IASB amends the accounting policy requirements (February 2021)

[8] Refer to the Catalogue for the title and topics covered by this standard.
[9] A Practice Statement is a non-mandatory guidance developed by the AASB.
[10] See discussion under AASB 2018-7 for the new definition of material.

[11] AASB 7 was amended to highlight that information about the measurement basis for financial instruments is expected to be material accounting policy information. AASB 134 was updated to state that a complete set of financial statements as defined by AASB 101 include material accounting policy information.

Other topics

AASB 2020-3 *Amendments to AASB 116 - Property, Plant and Equipment: Proceeds before Intended Use*

Effective for annual reporting periods beginning on or after 1 January 2022

Under AASB 116 *Property, Plant and Equipment*, net proceeds from selling items produced while constructing an item of property, plant and equipment[12] are deducted from the cost of the asset. The IASB's research indicated practical diversity in interpreting this requirement. As a result, AASB 116 was amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment, the proceeds from selling items produced before that asset is available for use. An entity is also required to measure production costs of the sold items by applying AASB 102 *Inventories*. Proceeds from selling any such items, and the cost of those items, are recognised in profit or loss in accordance with applicable standards.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are 'ready to use' on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments – 'ready to use' meaning the asset is in the location and condition necessary to be capable of operating in the manner intended by management. Earlier application is permitted.

Resource

IFRS Developments Issue 155: Revenue earned before an asset is ready for its intended use (November 2019)

AASB 2020-3 *Amendment to AASB 141 - Taxation in Fair Value Measurements (Part of Annual Improvements 2018-2020 Cycle)*

Effective for annual reporting periods beginning on or after 1 January 2022

When using a present value technique to measure fair values of assets within the scope of AASB 141 *Agriculture*, taxation cash flows are not included. While AASB 13 *Fair Value Measurement* does not prescribe an entity to use a particular present value technique[13] to measure fair value, it requires assumptions about cash flows and discount rates to be internally consistent. Depending on facts and circumstances, an entity applying a present value technique might measure fair value by discounting after-tax cash flows using an after-tax discount rate or pre-tax cash flows at a pre-tax discount rate.

The AASB has removed from AASB 141 the requirement to exclude taxation cash flows when measuring fair value. Such removal aligns with the principles of fair value measurement in AASB 13.

The amendment is applied prospectively. Earlier application is permitted.

[12] An item of property, plant and equipment under construction may be capable of producing saleable items (e.g., samples produced when testing whether the asset is functioning properly) while not yet capable of operating in the manner intended by management (i.e., before depreciation of the asset begins).

[13] Present value techniques differ in how they adjust for risk and in the type of cash flows they use.

Other topics

AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*[14]

AASB 2020-2 *Amendments to AASs – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

AASB 2021-1 *Amendments to AASs – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*

Effective for annual reporting periods beginning on or after 1 July 2021

To reduce the cost of preparing general purpose financial statements while maintaining their usefulness, certain entities[15] are permitted to apply reduced disclosure requirements. Those requirements are currently identified in each applicable Australian Accounting Standard.

The AASB developed AASB 1060, a new simplified disclosure standard based on *IFRS for Small and Medium-sized Entities*, to replace the reduced disclosure requirements. These simplified disclosure requirements are now collated in a single disclosure standard.

Furthermore, changes were introduced such that the concept of special purpose financial statements has been removed for certain for-profit entities. Consequently, such entities previously not required to prepare general purpose financial statements will be required to do so. AASB 2020-2 makes consequential amendments to existing Australian Accounting Standards to emphasise this new requirement for the preparation of general purpose financial statements.

Certain transition reliefs are available to qualified entities that choose to early adopt the simplified disclosure requirements.

Resources

For-profit entities moving from SPFS to GPFS (April 2021)

Good Group (Australian SDS) Pty Ltd illustrative financial statements – Simplified Disclosures (for early adoption – December 2020 and June 2021)

The time has come – Changes to Australian financial reporting (April 2020)

[14] Under AASB 2020-7 *Amendments to AASs – Covid-19-Related Rent Concessions: Tier 2 Disclosures*, Tier 2 entities applying *Simplified Disclosures* that availed of the practical expedient for Covid-19 related rent concessions as provided in AASB 2020-4 [and AASB 2021-3] are required to make the same disclosures as for Tier 1 entities complying with full disclosure requirements of AASB 16.
Under AASB 2020-9 *Amendments to AASs – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments*, Tier 2 entities are exempted from disclosing the quantitative impact of the initial adoption of AASB 2020-8.

[15] Under AASB 1053 *Application of Tiers of Australian Accounting Standards*, the reduced disclosure requirements apply to the following entities:
(a) for-profit private sector entities that do not have public accountability;
(b) not-for-profit private sector entities; and
(c) public sector entities, other than the Australian Government and State, Territory and Local Governments.

Other topics

AASB 2020-3 *Amendment to AASB 1 – Subsidiary as a First-time Adopter (Part of Annual Improvements 2018-2020 Cycle)*

Effective for annual reporting periods beginning on or after 1 January 2022

Under AASB 121, *The Effects of Changes in Foreign Exchange Rates*, an entity is required to determine its own functional currency, being the currency of the primary economic environment in which it operates. Where a group contains individual entities with different functional currencies, the group's consolidated financial statements are presented in a common currency through a translation process prescribed by AASB 121. Exchange differences arising from translating the results and financial position of the individual entities or foreign operations[16], commonly known as 'cumulative translation differences', are accumulated in a separate component of equity.

A subsidiary that adopts Australian Accounting Standards later than its parent is required to measure cumulative translation differences at its date of transition to Australian Accounting Standards either at zero or on a retrospective basis under AASB 1. Consequently, the subsidiary might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to Australian Accounting Standards.

Acknowledging that some entities find this requirement burdensome, the AASB simplified the application of AASB 1, permitting a subsidiary to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Australian Accounting Standards, excluding the impact of any adjustments made for consolidation procedures and for the business combination in which the parent acquired the subsidiary.

This exemption is also available to an associate or joint venture adopting Australian Accounting Standards later than its investor.

Earlier application is permitted.

[16] A foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Other topics

AASB 2020-3 *Amendments to AASB 137 – Onerous Contracts – Cost of Fulfilling a Contract*

Effective for annual reporting periods beginning on or after 1 January 2022

AASB 137 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable cost is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it

AASB 137 does not specify which costs to include in determining the cost of fulfilling a contract. Consequently, AASB 137 was amended to clarify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprises all costs that relate directly to the contract, which includes both the:

- Incremental costs of fulfilling that contract (e.g., materials and labour); and
- An allocation of other costs that relate directly to fulfilling contracts (e.g., depreciation of property, plant and equipment)

An entity shall apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Comparative information is not restated. Instead, the cumulative effect of initially applying the amendments is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. Earlier application of the amendments is permitted.

AASB 2019-5 *Amendments to AASs – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

Effective for annual reporting periods beginning on or after 1 January 2020

It is possible that an entity complying with Australian Accounting Standards cannot assert compliance with IFRS Standards if its reporting date falls between the issuance date of a new IFRS Standard and a later release date of an equivalent Australian Accounting Standard. To enable IFRS compliance assertion despite such delays, this standard amends AASB 1054 *Australian Additional Disclosures* to require disclosure of the possible impact of initial application of forthcoming IFRS Standards not yet adopted by the AASB, as specified in paragraphs 30 and 31 of AASB 108. Entities complying with Australian Accounting Standards can assert compliance with IFRS Standards by making this additional disclosure.

The amendments are applied prospectively.

Other topics

AASB 2021-2 *Amendments to AASB 108 - Definition of Accounting Estimates*

Effective for annual reporting periods beginning on or after 1 January 2023

An accounting policy may require items in the financial statements to be measured using information that is either directly observable, or estimated. Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information.

The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively[17].

The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error.

- For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy.
- In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy.

The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate.

The amendments are applied prospectively. Earlier application is permitted.

Resource

IFRS Developments Issue 186: The IASB defines accounting estimates (February 2021)

[17] A change in accounting policy is applied retrospectively except in the following circumstances:
- It is impracticable to do so.
- When an entity changes an accounting policy upon initial application of a new standard and there are specific transition provisions that do not permit retrospective application of the new standard.
- When an entity changes its policy to revalue assets in accordance with AASB 116 or AASB 138 *Intangible Assets*.

Service concession arrangements

AASB 1059 *Service Concession Arrangements: Grantors*

Effective for annual reporting periods beginning on or after 1 January 2020[18]

This standard addresses the accounting for a service concession arrangement by a grantor that is a public sector entity. The standard is based on the International Public Sector Accounting Standard (IPSAS) 32 *Service Concession Arrangements: Grantor* and is broadly consistent with AASB Interpretation 12 *Service Concession Arrangements*, which sets out the accounting by the operator of such arrangements.

The standard requires a grantor to:

- Recognise a service concession asset constructed, developed or acquired by the operator, including an upgrade to an existing asset of the grantor, when the grantor controls the asset;
- Reclassify an existing asset as a service concession asset when it meets the recognition criteria; this also applies to previously unrecognised identifiable intangible assets and land under roads;
- Initially measure a service concession asset at current replacement cost in accordance with the cost approach to fair value in AASB 13;
- Subsequent to its initial recognition or reclassification, the service concession asset is accounted for in accordance with AASB 116 or AASB 138, as appropriate, except as specified in this standard; and
- Recognise a corresponding liability measured initially at the fair value (current replacement cost) of the service concession asset, adjusted for any other consideration exchanged between the grantor and the operator, using either (or both) the financial liability model or the grant of a right to the operator model.

A full retrospective or a modified retrospective transition approach[19] is allowed.

Resources

Not-for-profit financial reporting and tax update (January 2020)

Accounting update: Accounting for service concession arrangements by public sector grantors (July 2017)

AASB 2019-2 *Amendments to AASs – Implementation of AASB 1059*

Effective for annual reporting periods beginning on or after 1 January 2020

This standard amends AASB 16 and AASB 1059 mainly to:

- Provide a practical expedient to grantors of service concession arrangements so that AASB 16 need not be applied to service concession assets recognised under AASB 1059; and
- Clarify measurement requirements for the liability of grantors that use the modified retrospective approach upon initial adoption of AASB 1059.

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[18] AASB 2018-5 *Amendments to AASs – Deferral of AASB 1059* deferred the effective date of AASB 1059 to annual reporting periods beginning on or after 1 January 2020 instead of 1 January 2019.

[19] AASB 2021-4 *Amendments to AASs – Modified Retrospective Transition Approach for Service Concession Grantors* amended AASB 1059 to change the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 so that the GORTO liability is initially measured based on the fair value (current replacement cost) of the service concession asset at the date of initial application, adjusted by:

(a) deducting the carrying amount of any consideration transferred by the grantor to the operator recognised as an asset;

(b) adjusting the resulting amount to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement; and then

(c) deducting any outstanding related financial liabilities.

Other topics

AASB 2019-7 *Amendments to AASs – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations*

Effective for annual reporting periods beginning on or after 1 January 2020

This standard amends AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to:

- Provide optional relief, for the General Government Sector (GGS) financial statements and the Whole of Government financial statements (including the Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) sectors), from:
  - Disclosure of the key fiscal aggregates measured in accordance with the ABS GFS Manual where they differ from the key fiscal aggregates measured and disclosed in accordance with Australian Accounting Standards; and
  - A reconciliation of the two measures of key fiscal aggregates; and

- Where the entity elects to adopt the optional relief – require additional disclosure explaining how each key fiscal aggregate is calculated and how it differs from its corresponding GFS measure; the explanation may be qualitative rather than quantitative.

Catalogue of new accounting pronouncements issued as of 30 June 2021

New pronouncements[20] that must be applied for 30 June 2021 year-ends	Effective date[21]	Page
Conceptual Framework for Financial Reporting	1 January 2020	12
AASB 2019-1 *Amendments to AASs - References to the Conceptual Framework*	1 January 2020	12
AASB 2018-6 *Amendments to AASs - Definition of a Business*	1 January 2020	6
AASB 2019-3 *Amendments to AASs - Interest Rate Benchmark Reform [Phase 1]*	1 January 2020	3
AASB 2018-7 *Amendments to AASs - Definition of Material*	1 January 2020	14
AASB 2019-7 *Amendments to AASs - Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations*	1 January 2020	21
AASB 2019-5 *Amendments to AASs - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	1 January 2020	18
AASB 1059 *Service Concession Arrangements: Grantors*	1 January 2020	20
AASB 2019-2 *Amendments to AASs - Implementation of AASB 1059*	1 January 2020	20
AASB 2021-4 *Amendments to AASs - Modified Retrospective Transition Approach for Service Concession Grantors*	1 July 2020	20
AASB 2020-4 *Amendments to AASs - Covid-19-Related Rent Concessions*	1 June 2020	10

[20] For full access to Australian Accounting Standards please visit https://www.aasb.gov.au/.

[21] Effective for annual reporting periods beginning on or after this date

Catalogue of new accounting pronouncements issued as of 30 June 2021

New pronouncements that may be applied early for 30 June 2021 year-ends	Effective date	Page
AASB 2020-5 *Amendments to AASs - Insurance Contracts*	1 January 2021	9
AASB 2020-8 *Amendments to AASs - Interest Rate Benchmark Reform - Phase 2*	1 January 2021	4
AASB 2021-3 *Amendments to AASs - Covid-19-Related Rent Concessions beyond 30 June 2021*	1 April 2021	11
AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*	1 July 2021	16
AASB 2020-2 *Amendments to AASs - Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*	1 July 2021	16
AASB 2020-7 *Amendments to AASs - Covid-19-Related Rent Concessions: Tier 2 Disclosures*	1 July 2021	16
AASB 2020-9 *Amendments to AASs - Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments*	1 July 2021	16
AASB 2021-1 *Amendments to AASs - Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*	1 July 2021	16
AASB 2020-3 *Amendments to AASs - Annual Improvements 2018-2020 and Other Amendments*	1 January 2022	
► Amendment to AASB 1, *Subsidiary as a First-time Adopter*		17
► Amendments to AASB 3, *Reference to the Conceptual Framework*		13
► Amendment to AASB 9, *Fees in the '10 per cent' Test for Derecognition of Financial Liabilities*		5
► Amendments to AASB 116, *Property, Plant and Equipment: Proceeds before Intended Use*		15
► Amendments to AASB 137, *Onerous Contracts - Cost of Fulfilling a Contract*		18
► Amendment to AASB 141, *Taxation in Fair Value Measurements*		15
AASB 2014-10 *Amendments to AASs - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2022	6
AASB 17 *Insurance Contracts*	1 January 2023	8
AASB 2020-1 *Amendments to AASs - Classification of Liabilities as Current or Non-current*	1 January 2023	13
AASB 2021-2 *Amendments to AASs - Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 January 2023	
► Amendments to AASB 7, AASB 101, AASB 134 and AASB Practice Statement 2		14
► Amendments to AASB 108		19
AASB 2021-5 *Amendments to AASs - Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023	7

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