

Deadline looming for special purpose financial reports

At a glance

In March 2020 the AASB approved an amending standard (AASB 2020-2) that removes the ability of for-profit private sector entities to lodge special purpose financial statements (SPFS) with ASIC.

The AASB also approved a new simplified disclosure standard (AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*) that replaces the previous Tier 2 reduced disclosure framework. Both standards are effective from 1 July 2021.

If you are still lodging SPFS with ASIC, you will need to start thinking about the transition. This may be as easy as identifying which additional disclosures you will need to make next year, but could be more complicated if it also involves first-time preparation of consolidated financial statements.

Will I be affected?

You will be affected if you are a for-profit private sector entity that is currently preparing SPFS and:

- you are required by legislation to comply with 'Australian Accounting Standards' (AAS) or 'accounting standards', or
- your constituting document or another document requires you to prepare financial statements that comply with AAS.

When will this change become effective?

The amendments and the new disclosure standard become effective for financial years commencing on or after 1 July 2021. However, if you are only preparing a financial report because your constitution or other legal document requires you to do so, then you may be grandfathered - see the section on trusts and non-statutory financial reports for details.

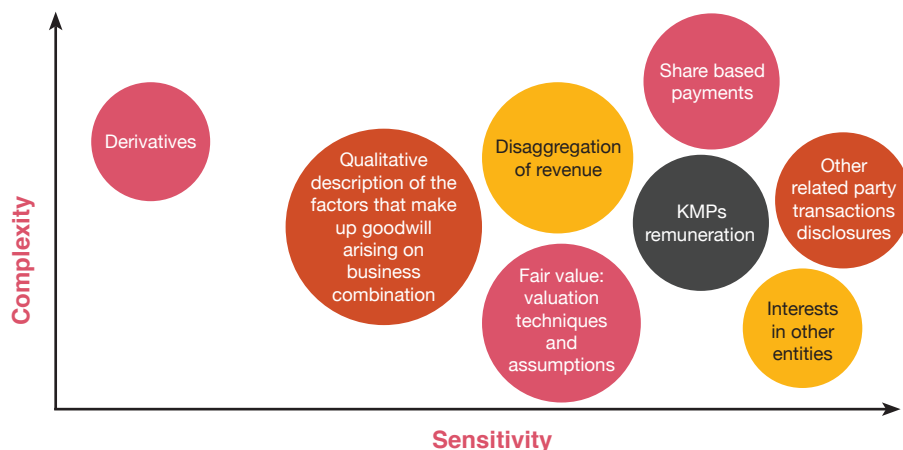
What does this mean?

The transition to general purpose financial statements (GPFS) can have a significant impact on the preparation of your financial report. The key changes and areas of focus are:

Significant increase in disclosures

We would expect that most affected entities will not be publicly accountable and should therefore be eligible to apply the simplified disclosure standard (AASB 1060), i.e. prepare Tier 2 GPFS. AASB 1060 does, however, introduce a number of new disclosures that entities would not have commonly included in their SPFS. Some of those disclosures might feel sensitive to the Board and/ or involve complexities and significant judgement.

The graph below shows a few of the most complex and sensitive disclosures to be aware of:



However, there are also disclosures that were mandatory for SPFS that are no longer required under the simplified disclosure standard. These include:

- a third balance sheet at the beginning of the earliest comparative period where comparatives have been retrospectively restated
- a reconciliation of profit after tax to cash flow from operating activities
- a reconciliation of liabilities arising from financing activities
- cash flow information in relation to business combinations.

There will also be less disclosures for entities that are currently reporting under the reduced disclosure regime (RDR) when they transition to AASB 1060.

You can find a comparison of the disclosure requirements under the new standard versus SPFS and GPFS RDR in Appendix B to our latest [Value Accounts Simplified Disclosure](#) publication.

Systems and information needs

Some disclosures such as related party transactions may require new information which may not be readily available. You may need to put in place additional processes or even systems to identify those parties and transactions in order to ensure the completeness and accuracy of the information. You will need to plan ahead, in particular if you are not able to use the transitional relief described below and will therefore need to collect the information for the comparative period as well.

First-time consolidation

The ultimate Australian parent entity in a group of companies will now need to prepare consolidated financial statements. Relief that was previously available for non-reporting entities is no longer available. There are several transition options available for the first-time preparation of consolidated financial statements. These are explained in Appendix A in our latest [Value Accounts Simplified Disclosure](#) publication.

If you are impacted by this requirement, please reach out to your PwC contact for further discussion.

Is there any transitional relief available?

Special transitional relief is available if you apply the amendments and the new disclosure standard early, i.e. for financial years beginning before 1 July 2021.

Entities with a financial year ending 30 June have already missed the opportunity to benefit from a transitional relief. However, if your year end is 31 December 2021 or 31 March 2022, for example, you could still decide to early adopt the changes. In this case:

- You will not need to restate comparative information for any changes as a result of applying full recognition and measurement requirements for the first time. This means that if you have not complied with all recognition and measurement requirements while preparing SPFS, or have prepared stand-alone rather than consolidated financial statements, you can disclose your comparatives as they were disclosed in the previous SPFS. You will, however, need to disclose a reconciliation of equity from the latest SPFS to the adjusted opening balances in the notes.
- You will not need to disclose comparatives for those note disclosures that were not previously required for SPFS (e.g. related party or tax disclosures). This relief applies regardless of whether you have previously complied with all recognition and measurement requirements.

This relief is not available if you wait until the mandatory date of 1 July 2021 to adopt the new standards, which means that comparative disclosures will be required, including consolidated financial statements and notes for the comparative period, where applicable. It also means that regardless of the timing of the adoption, you will need to have the relevant information, including consolidated financial information either from 1 July 2020 (for June year-ends) or 1 January 2021 (for December year-ends).

In addition to the above, the AASB will not require entities to distinguish between errors and changes in accounting policies when transitioning from SPFS to GPFS.

What if I am preparing a non-statutory financial report?

If you are a trust or other entity:

- that does not have any statutory reporting requirements,
- but your constituting document or another legal document requires you to prepare financial statements that comply with AAS,

you may be able to continue preparing financial statements under the old framework - including preparing SPFS if you are not a reporting entity.

However, this 'grandfathering' relief is not available:

- if the constituting document or other legal document is amended in any way after 1 July 2021; and
- for any new entities set up, or contracts entered into, after 1 July 2021.

Where the relief is not available, you will need to prepare full disclosure (Tier 1) or Tier 2 GPFS.

We recommend discussing with your stakeholders whether compliance with AAS is needed if you are planning to make any amendments to your constituting document or other legal documents, or are setting up a new trust, or entering into a new agreement, e.g. with a lender that refers to the preparation of financial statements.

Finally, if you are continuing to prepare SPFS, we further recommend including a positive statement about the extent of your compliance with the recognition and measurement requirements of AAS, including consolidation and equity accounting and the extent of disclosures in your basis of preparation note.

What if I am a not-for-profit (NFP) or public sector entity, am I impacted?

The removal of SPFS will only affect for-profit private sector entities. However, the replacement of RDR with the new simplified disclosure standard will apply to all entities that are currently preparing Tier 2 GPFS.

Therefore, if you are a NFP or public sector entity that is currently preparing Tier 2 RDR GPFS, you will need to switch to the new simplified disclosure standard (AASB 1060) from 1 July 2021.

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