Clarity in financial reporting
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Simplified Disclosures – Transition options and opportunities

The 'Simplified Disclosures' Tier 2 financial reporting framework came into effect from 1 July 2021 and will apply for the first time at 30 June 2022 (see our earlier publication). In this publication we explore what this means, and the opportunities available on transition

In summary:

- The ability of many for-profit entities to prepare special purpose financial statements was removed with effect from 1 July 2021
- A new Tier 2 'Simplified Disclosures' Standard replaces 'Reduced Disclosure Requirements' (RDR) from the same date
- The transitional requirements are complex and depend upon various factors
- Many entities will have choices on transition, particularly those moving from stand-alone special purpose financial statements to consolidated general purpose financial statements
- Entities choosing to early adopt have additional choices available
- There can be a substantial amount of effort required to transition to the new framework.

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"The Simplified Disclosures framework presents a significant compliance challenge and entities should not underestimate the amount of effort required"

Alison White
Lead Partner – Accounting Technical

Overview

Simplified Disclosures framework

In March 2020, the Australian Accounting Standards Board (AASB) issued two pronouncements that:

- Removed the ability to prepare special purpose financial statements for some for-profit entities – through an Amending Standard, AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (AASB 2020-2)
- Introduced a new Tier 2 'Simplified Disclosure' Standard which replaces the existing 'Reduced Disclosure Requirements' (RDR) – AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060).

The changes effectively eliminated the application of the 'reporting entity' concept by impacted entities.

Many private sector for-profit entities will apply the new Simplified Disclosures framework to reporting periods beginning on or after 1 July 2021. However, exemptions are available in some circumstances for certain for-profit entities that have a non-legislative requirement to prepare financial statements, such as trusts, partnerships, joint arrangements and self-managed superannuation funds. These entities can usually continue to prepare special purpose financial statements (SPFS) as they are not required to prepare general purpose financial statements (GPFS) in accordance with the Simplified Disclosures framework[1].

Subsequent to the initial making of the Simplified Disclosures framework, the AASB has made amending standards impacting the framework[2]:

- AASB 2020-7 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures* – adds additional disclosures for entities subject to AASB 1060 that have applied the practical expedient in AASB 16 *Leases* in accounting for COVID-19-related rent concessions
- AASB 2020-9 *Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments* – provides relief for entities reporting under the Simplified Disclosures framework from disclosing the financial effects of their initial application of the amendments made by AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* to AASB 7 *Financial Instruments: Disclosures*, AASB 9 *Financial Instruments* and other Accounting Standards to assist entities in recognising the effects of interest rate benchmark reform
- AASB 2021-1 *Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities* - provides not-for-profit entities early adopting Simplified Disclosures with optional relief from presenting comparative information in the notes to the financial statements where the entity did not disclose the comparable information in its most recent previous GPFS
- AASB 2021-6 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards* - requires entities to disclose their material accounting policy information rather than their significant accounting policies and to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements. This amendment applies to annual periods beginning on or after 1 January 2023, with earlier application permitted
- AASB 2022-2 *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1*, which:
  - Clarifies that for-profit entities moving from unconsolidated RDR to consolidated Simplified Disclosures financial statements can apply AASB 1 *First-time Adoption of Australian Accounting Standards* when preparing consolidated financial statements for the first time (where consolidated financial statements were not previously prepared on the basis the entity was not a reporting entity)
  - Allows for-profit and not-for-profit subsidiaries preparing GPFS for the first time to apply the optional exemption in AASB 1.D16(a) and measure their assets and liabilities at the carrying amounts included in a parent's consolidated financial statements when the parent has already adopted either Australian Accounting Standards or International Financial Reporting Standards (with similar amendments made to AASB 1.D17).

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[1] Where SPFS are prepared, they must provide additional information in the notes of the financial statements in certain circumstances (AASB 1054.9A).

[2] In addition, AASB 2021-7 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* makes non-substantive editorial corrections to AASB 1060.

Understanding the Simplified Disclosures framework in more detail

To understand the nature of the changes implemented by Simplified Disclosures and the entities affected, see our complementary Clarity publication, *Removal of special purpose financial statements* (available at www.deloitte.com/au/clarity).

We have also produced model financial statements illustrating the disclosures required in GPFS in accordance with Simplified Disclosures. There are two versions of the model financial statements available, one illustrating early adoption of Simplified Disclosures and one illustrating first-time mandatory adoption. These model financial statements are available at www.deloitte.com/au/models.

Transition options

In finalising the Simplified Disclosures framework, the AASB implemented a few measures that seek to ease transition for entities. In broad terms, this involves:

- **Transitional guidance**. Entities adopting Simplified Disclosures are required to either:
  - Fully retrospectively restate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108), or
  - Apply AASB 1 *First-time Adoption of Australian Accounting Standards* (AASB 1) (in some cases)
- **Relief for early adopters**. Entities that elected to apply Simplified Disclosures early were provided with additional optional relief from providing comparative information. This included relief from restating comparatives in the primary financial statements in some cases (most notably for a for-profit entity where full recognition and measurement – including consolidation and equity accounting – have not been previously applied, and using a date of transition that is the beginning of the current, rather than comparative, period).

The application of the various transitional provisions can be complex and depends on various factors. Accordingly, transition to Simplified Disclosures requires planning and consideration of the options available to ensure optimal outcomes, including the following steps:

- Understand what transition to Simplified Disclosures means for your organisation
- Decide on how to respond to options available on transition for the entity's circumstances
- Assess systems and processes to ensure information required is being captured and collated
- Consider whether early adoption is beneficial (if available).

Transition effort can be substantial

Entities transitioning to Simplified Disclosures should not underestimate the amount of effort that can be required. Although the transition may at first appear to be a simple disclosure issue, the impacts are often much broader, including systems and processes, information gathering, accounting policy determination and transitional choices. More information on practical transition considerations can be found under 'Understanding the effort required to implement Simplified Disclosures' on page 10.

Overview of transition requirements

General requirements

The requirements to transition from SPFS or RDR to Simplified Disclosures are outlined in AASB 1053 *Application of Tiers of Australian Accounting Standards* (AASB 1053) (specifically paragraphs 18A-18D and paragraph 20A).

In general, AASB 1053 requires entities to either apply AASB 1 or AASB 108 on transition to Simplified Disclosures. However, the choice between AASB 1 or AASB 108 is not always available, in that only *some* entities have the choice of applying AASB 1.

Not all entities can apply AASB 1 on transition to Simplified Disclosures

A for-profit entity can only apply AASB 1 – and take advantage of its transitional provisions such as those discussed on page 7 – if:

- The entity's previous SPFS did not comply with all the recognition and measurement requirements of all Australian Accounting Standards, or
- The entity's previous SPFS were prepared on a stand-alone basis and were not consolidated because the entity (or group) was not considered to be a reporting entity, or
- The entity is a for-profit entity and previously prepared unconsolidated GPFS under RDR on the basis the entity was not a reporting entity and is required to prepare consolidated GPFS under Simplified Disclosures.

In addition, for periods beginning before 1 July 2022 (which includes the first year of mandatory adoption), for-profit entities that previously prepared SPFS and are eligible to apply AASB 1 on transition are not required to distinguish between the correction of errors and changes in accounting policies if the entity becomes aware of errors made in its previous SPFS (AASB 1053.E3)[3].

Where all the recognition and measurement requirements of Australian Accounting Standards were previously applied (including consolidation and equity accounting where applicable), the entity *cannot* apply AASB 1 on transition to Simplified Disclosures. Instead, the entity applies AASB 108 in the context of AASB 1060 and:

- Continues its existing recognition and measurement accounting policies
- Provides the transition disclosures required by AASB 1060, rather than AASB 1 or AASB 1053.

Appendix B provides illustrative disclosures of the transition disclosures for entities meeting these criteria.

There is limited transitional guidance and relief for not-for-profit entities, as these entities are not required to transition from SPFS to GPFS pending the finalisation of the AASB's not-for-profit financial reporting framework project. Some not-for-profit entities may have prepared GPFS under RDR and these entities are provided with limited relief on transition to Simplified Disclosures (as RDR is replaced by Simplified Disclosures for all entities applying Tier 2 for reporting periods beginning on or after 1 July 2021)[4].

[3] This choice also applies if the entity chooses to apply AASB 108 rather than AASB 1 on transition to Simplified Disclosures. In other words, so long as the entity is eligible to apply AASB 1, the additional relief in AASB 1060.E3 to not to distinguish between the correction of errors and changes in accounting policies is available.
[4] Not-for-profit entities transitioning from Tier 1 to Simplified Disclosures are also afforded this relief.

Additional options on early adoption

Where entities early adopt Simplified Disclosures, a few optional exemptions are available – but again, these depend on how the entity's previous financial statements were prepared.

The table below outlines the additional optional relief for entities moving to Simplified Disclosures:

Additional optional relief on early adoption	Who is eligible?
Relief from restating comparative information Where this option is adopted, the entity does not restate comparative information on the face of the financial statements or in the notes, adopts a date of transition at the beginning of the current period (rather than the comparative period as would normally occur under AASB 1), and provides alternate reconciliations (see below)	Private sector for-profit entities moving from SPFS to Simplified Disclosures early that choose to apply AASB 1 (AASB 1053.E5-E7)
Relief from providing comparative information for new note disclosures This permits the entity to avoid including comparative information in the notes to the financial statements where the information was not disclosed in its most recent previous financial statements	Private sector for-profit entities early adopting Simplified Disclosures (AASB 1053.E4)[5] Not-for-profit entities previously preparing GPFS and early adopting Simplified Disclosures (AASB 1060.B1(c))[5]

Understanding the modified transitional approach on early adoption

Early adopting private sector for-profit entities previously preparing SPFS that apply AASB 1 can elect to apply a modified transitional approach, as follows (AASB 1053.E5-E7):

- The entity adopts a 'date of transition to Australian Accounting Standards' in AASB 1 that is beginning of the current period, rather than the beginning of the comparative period. This means that any adjustments made on applying AASB 1 (see page 8) impact opening retained earnings of the current period and do not impact comparative information
- Comparative information is not restated in the financial statements, and that information is prominently labelled to indicate it is not compliant with Australian Accounting Standards. This applies on the face of the primary financial statements and throughout the notes. This may mean the current year amounts are consolidated, but the comparative information is on a stand-alone basis
- The entity presents:
  - Two statements of financial position
  - Two statements of profit and loss and other comprehensive income
  - Two statements of profit or loss (if separate statements of profit or loss are presented)
  - Two statements of cash flows
  - Two statements of changes in equity
  - Related notes
- A reconciliation of equity is provided at the entity's date of transition (i.e. the beginning of the current period)
- A description of the adjustments (without quantification) that would have been required to make the comparative information in the statement of profit or loss and other comprehensive income and separate statement of profit or loss (if presented) compliant with Australian Accounting Standards is disclosed.

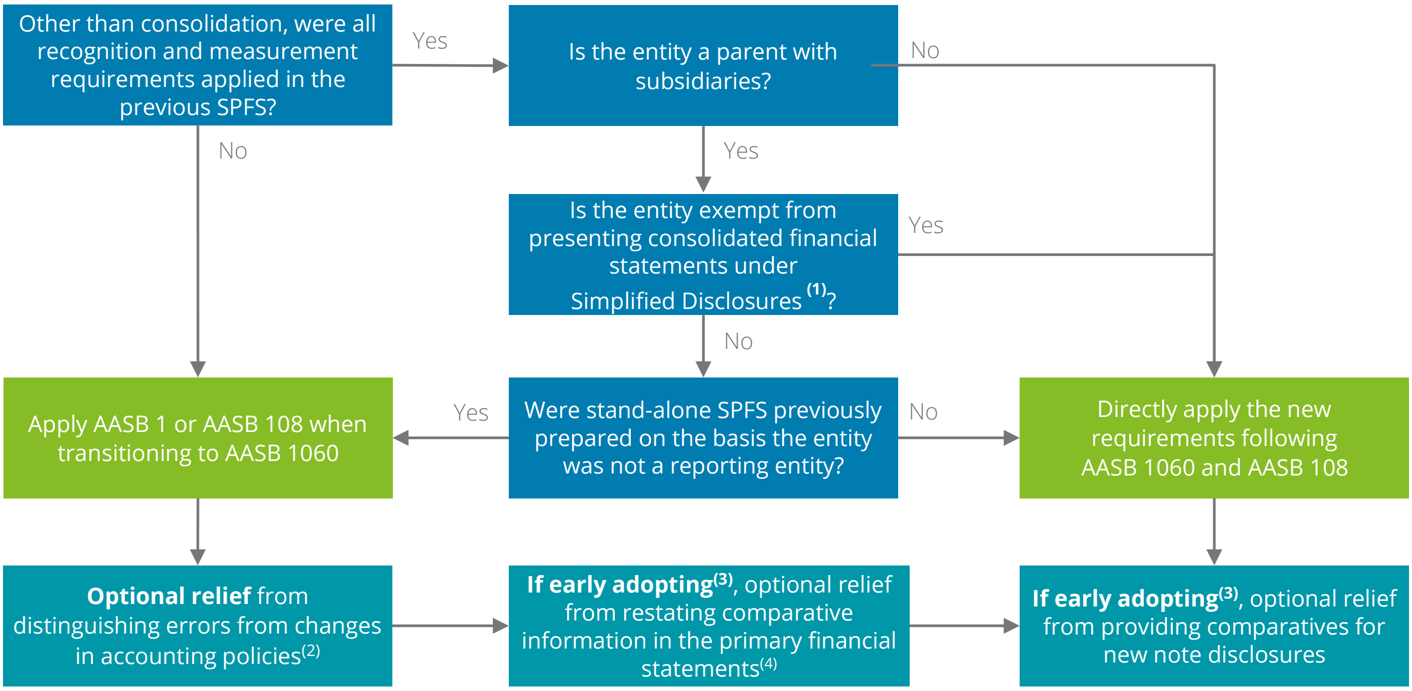
More information about early adoption of Simplified Disclosures can be found in Appendix C.

[5] When the AASB made AASB 1060 and AASB 2020-2, the short-term exemptions which are outlined in Appendix E of AASB 1053 applied to for-profit private sector entities applying AASB 1060 (AASB 1053.E1). However, relief equivalent to AASB 1053.E1(b) was afforded to not-for-profit entities transitioning from GPFS to Simplified Disclosures through the amendments made by AASB 2021-1, which includes the equivalent relief in AASB 1060.B1(c).

Summary of the transition process

Transition from SPFS to Simplified Disclosures (for-profit entities)

The flowchart below (summarised from AASB 1053 Appendix C and Appendix E) outlines the decision making process on transition from SPFS to Simplified Disclosures for a private sector for-profit entity[6]:

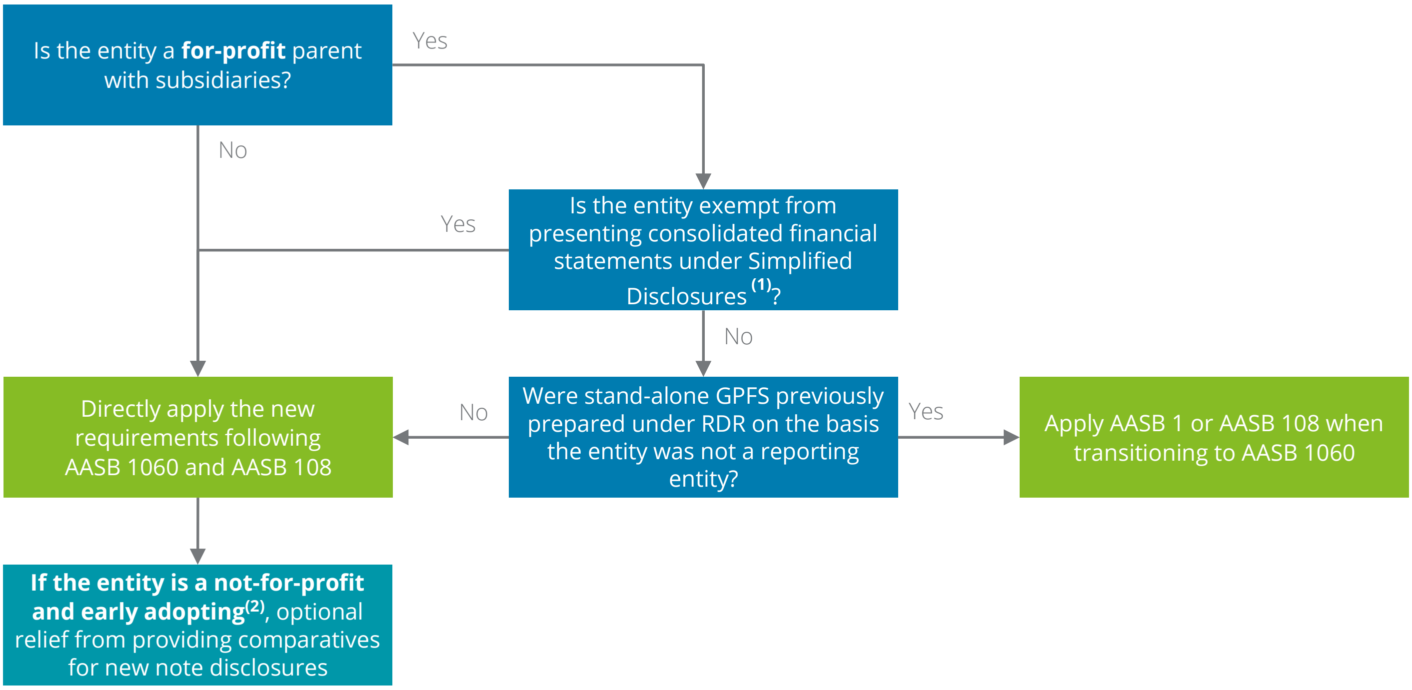


(1) Not all entities that are parents are required to present consolidated financial statements when applying Simplified Disclosures. For example, if the entity is an investment entity that is not permitted to present consolidated financial statements under Simplified Disclosures, whether the entity was previously considered a reporting entity or not does not result in a new requirement to consolidate on Transition to Simplified Disclosures. Accordingly, such entities continue to measure their subsidiaries at fair value and cannot apply AASB 1. Similarly, entities are not required to present (but may choose to present) consolidated financial statements where they meet the requirements of paragraphs 4-Aus4.2 of AASB 10 *Consolidated Financial Statements*, including (among other requirements) that an ultimate or any intermediate parent produces financial statements available for public use that comply with International Financial Reporting Standards, Australian Accounting Standards or Australian Accounting Standards – Simplified Disclosures. However, an ultimate Australian parent must present consolidated financial statements in all cases, unless it is an investment entity, in which case it must measure all subsidiaries at fair value through profit or loss (AASB 10.Aus4.2).
(2) Only applies to periods beginning before 1 July 2022.
(3) AASB 1060 applies to annual reporting period beginning on or after 1 July 2021. The relief available when adopting early would only apply where AASB 1060 is applied to a reporting period beginning before 1 July 2021.
(4) Relief from restating comparative information on transition from SPFS on early adoption of Simplified Disclosures is only available to a for-profit private sector entity that applies AASB 1 on transition. Where AASB 108 is being applied, comparative information must be fully restated.

[6] AASB 1060 is mandatory for impacted for-profit entities for reporting periods beginning on or after 1 July 2021. Accordingly, most entities will transition to AASB 1060 by 1 July 2022. However, entities newly requiring financial statements after this date (e.g. a small proprietary company becoming a large proprietary company) have fewer options on transition, in that they must distinguish errors from changes in accounting policies. The transitional requirements for not-for-profit entities are not the same as for-profit entities. The AASB has a not-for-profit financial reporting framework project underway to consider if and if so, how, not-for-profit entities currently preparing SPFS should transition to Tier 2 or a possible Tier 3 framework. However, the AASB has made amendments providing some transitional relief for not-for-profit entities previously preparing GPFS (see page 7).

Transition from RDR to Simplified Disclosures

The flowchart below summarises the transition process for entities transitioning from RDR to Simplified Disclosures:



(1) Not all entities that are parents are required to present consolidated financial statements when applying Simplified Disclosures. For example, if the entity is an investment entity that is not permitted to present consolidated financial statements under Simplified Disclosures, whether the entity was previously considered a reporting entity or not does not result in a new requirement to consolidate on Transition to Simplified Disclosures. Accordingly, such entities continue to measure their subsidiaries at fair value and cannot apply AASB 1. Similarly, entities are not required to present (but may choose to present) consolidated financial statements where they meet the requirements of paragraphs 4-Aus4.2 of AASB 10 *Consolidated Financial Statements*, including (among other requirements) that an ultimate or any intermediate parent produces financial statements available for public use that comply with International Financial Reporting Standards, Australian Accounting Standards or Australian Accounting Standards – Simplified Disclosures. However, an ultimate Australian for-profit parent must present consolidated financial statements in all cases, unless it is an investment entity, in which case it must measure all subsidiaries at fair value through profit or loss (AASB 10.Aus4.2). However, not-for-profit entities and for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (basically those for-profit entities exempt from mandatory application of Simplified Disclosures) are able to continue to apply the reporting entity concept and avoid consolidation if the other criteria in AASB 10 are met.

(2) AASB 1060 applies to annual reporting periods beginning on or after 1 July 2021. The exemption from providing comparative information for new note disclosures is only available to not-for-profit entities that apply AASB 1060 to a reporting period beginning before 1 July 2021 (AASB 1060.B1(c)).

Applying AASB 1

When AASB 1 can be applied

Under AASB 1053, AASB 1 can only be applied by a for-profit private sector entity on transition from SPFS to Simplified Disclosures where it has:

- Previously prepared stand-alone SPFS and is required to prepare consolidated Simplified Disclosures GPFS under AASB 1060 (AASB 1053.18A(a), (b))
- Previously *not* applied all relevant recognition and measurement requirements of Australian Accounting Standards in its previous SPFS (AASB 1053.18A(a)), or
- Previously prepared SPFS that claimed compliance with applicable recognition and measurement requirements of Australian Accounting Standards, but discovered this claim was made in error (AASB 1053.18D).

In addition, a for-profit entity transitioning from unconsolidated RDR to consolidated Simplified Disclosures GPFS is eligible to apply AASB 1 where those unconsolidated RDR financial statements were prepared on the basis that neither the parent nor the group was a reporting entity (AASB 1053.20A).

Entities preparing financial statements under the *Corporations Act 2001*

Entities preparing SPFS under the *Corporations Act 2001* would normally apply all the recognition and measurement requirements in Australian Accounting Standards (due to the ASIC guidance in ASIC Regulatory Guide RG 85 *Reporting requirements for non-reporting entities*). Therefore, the most common situation where these entities will be able to apply AASB 1 on transition to Simplified Disclosures is where the entity previously prepared stand-alone SPFS and is required to prepare consolidated GPFS when applying AASB 1060.

CBC reporting entities under tax law

Certain entities considered 'CBC reporting entities' (basically, entities or members of a group that have global annual income of A$1 billion or more) under the *Income Tax Assessment Act 1997* may be captured by the GPFS requirements in s.3CA of the *Tax Administration Act 1953*. Some CBC reporting entities prepared unconsolidated GPFS for the purposes of reporting under the *Corporations Act 2001* or *Tax Administration Act 1953,* partially on the basis such entities were not reporting entities. These entities are eligible to apply AASB 1 on transition to Simplified Disclosures if they are required to prepare consolidated GPFS under Simplified Disclosures (due to the elimination of the reporting entity concept).

Transition options under AASB 1

The table below sets out the most relevant options for entities applying AASB 1 on transition to Simplified Disclosures that have previously adopted all recognition and measurement requirements of Australian Accounting Standards (except for consolidation and/or equity accounting) in their previous financial statements.

Transition option	Impacts
Deemed cost. A deemed cost based on fair value at the date of transition or based on a previous revaluation can be adopted for property, plant and equipment, investment property measured using the cost model, right of use assets and certain intangibles (AASB 1.D5-D8).	Generally increases net assets as a result of higher carrying amounts, but can result in higher depreciation and amortisation and may increase the changes of future impairment losses[7].

[7] There is no requirement to continue to measure deemed cost assets on the revaluation basis after transition, but entities may choose to do so where permitted by the relevant Australian Accounting Standard. Where the revaluation basis is subsequently used, the deemed cost can effectively reset the asset revaluation reserve to zero on transition to Simplified Disclosures (as the carrying amount and deemed cost are the same amount at transition).

Transition option	Impacts
Short-cut consolidation method. This permits the goodwill in respect of previously unconsolidated subsidiaries to be determined as the difference between the carrying amount of the investment in the subsidiary and the investor's share of the net assets of the subsidiary at the date of transition (AASB 1.C4(j))[8].	Provides an easy way to establish the opening position in the consolidated financial statements, however usually results in goodwill that is subject to impairment testing or a gain that is recognised in retained earnings on transition[9].
Reset of cost of investments. An entity is permitted to deem the cost of a subsidiary at either the fair value at the date of transition or the previous GAAP carrying amount (including when applying the short-cut consolidation method immediately above) (AASB 1.D15).	Permits unrecognised changes in the fair value of investments to be recognised, however may increase goodwill on consolidation and increase the chances of impairment in future periods.
Reset of foreign currency translation reserve (FCTR). The cumulative translation differences for all foreign operations can be deemed to be zero at the date of transition (AASB 1.D13).	The amount that would be presented as a FCTR is instead recognised in consolidated retained earnings (can be an increase or decrease).
Easier tracking of past acquisitions of foreign operations. Fair value adjustments and goodwill arising in respect of foreign operations arising in business combinations occurring before the date of transition can be measured using the entity's functional currency (so are not impacted by future foreign exchange movements) (AASB 1.C2).	The carrying amounts of such assets (before depreciation, amortisation and impairment) do not change as a result of foreign exchange changes, resulting in less volatility in net assets over time.
Use of parent entity carrying amounts An entity may measure its assets and liabilities at the carrying amounts included in a parent's consolidated financial statements (based on the parent's date of transition to Australian Accounting Standards or International Financial Reporting Standards[10]), if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (AASB 1.D16(a)).	Permits an entity to adopt the carrying amounts used in a parent's financial statements. Using this option can avoid the need to keep two parallel sets of records which may be burdensome and not beneficial to users.

Examples illustrating the use of each of these optional exemptions are illustrated in Appendix A.

In addition to the various transition options (including those listed above), AASB 1 also contains a number of mandatory exceptions to full retrospective restatement, covering financial instruments, non-controlling interests, government loans and insurance contracts. Entities applying AASB 1 need to consider the impacts of these mandatory exceptions on transition to Simplified Disclosures. However, where the entity and any consolidated subsidiaries have applied all relevant recognition and measurement requirements of Australian Accounting Standards in their previous financial statements, these mandatory exceptions may have limited or no impacts on transition.

[8] Entities also have the ability to take advantage of the other transitional provisions in respect of past business combinations and acquisitions of investments in associates, interests in joint ventures and interests in joint operations that are outlined in Appendix C of AASB 1. This results in past transactions not being retrospectively restated. However, where any business combination is restated, all subsequent business combinations must also be restated.

[9] A gain would arise where the net assets of the subsidiary (determined in accordance with Australian Accounting Standards) exceeds the carrying amount of the investment in the parent. Such a gain is recognised directly in retained earnings at the date of transition. Furthermore, if the parent did not acquire a subsidiary in a business combination because it created the subsidiary, the parent does not recognise any goodwill (AASB 1.IG27(c)). For a subsidiary that was not acquired in a business combination, a difference may still arise between the carrying amounts of the assets and liabilities and the cost of investment (e.g. because of accumulated profits of the subsidiary). Any such difference should be taken to retained earnings or some other appropriate category of equity (e.g. if the entity maintains a specific reserve for AASB 1 adjustments).

[10] AASB 2022-2 includes a reference to "International Financial Reporting Standards" in AASB 1.D16(a) and AASB 1.D17. More information about these changes can be found on page 2.

Other considerations

Understanding the effort required to implement Simplified Disclosures

It is important that entities do not underestimate the amount of effort required to implement Simplified Disclosures. Substantial planning and careful consideration of the impact is likely to lead to better outcomes and ensure reporting deadlines can be met. Even though entities previously preparing SPFS under the *Corporations Act 2001* will be able to take advantage of the one-month reporting extension available for June 2022 reporters[11], the implementation effort should not be deferred.

The critical message for the transition to Simplified Disclosures is that the process is more than simply identifying new disclosures to include in the financial statements. Even though Simplified Disclosures is focused on disclosures, in developing those disclosures, there are wide-ranging considerations, including policy decisions, systems and process implementation, and for entities preparing consolidated financial statements for the first time, the consolidation process to implement.

Our experience with adopters is that the effort required for transition is much greater than many initially expected

The table below sets out some of the areas where entities may face significant effort or challenges in meeting the requirements of Simplified Disclosures. This table is not designed to be comprehensive, but is instead focused on the major areas that have caused substantial implementation effort and challenges by entities that have already adopted Simplified Disclosures:

Area	Example considerations
First-time consolidation of subsidiaries Entities that have not previously produced consolidated financial statements need to determine initial consolidation entries, and prepare consolidated information on a go--forward basis	• Whether information is available to fully retrospectively consolidate subsidiaries, or if the transitional options available under AASB 1 should be applied • Creation or adaptation of reporting systems to capture and consolidate the information required by Simplified Disclosures • Potentially first-time consideration of subsidiaries not previously consolidated or required to prepare separate financial statements • Implementation of policy manuals for consistent accounting policies within the group

Recognition and measurement requirements
Entities preparing RDR financial statements or SPFS under the *Corporations Act 2001* should already comply with the recognition and measurement requirements of all Australian Accounting Standards. However, additional considerations may arise on consolidation or as a result of transition
	• Where the entity is able to apply AASB 1, whether AASB 1 is to be applied and if so, which exemptions or modified accounting approaches available under AASB 1 are to be applied – including comparison of options and interaction with tax, legal and commercial objectives
	• Impairment testing of any goodwill arising on consolidation, including:
	  o Identification of the entity's segments (as goodwill cannot be allocated to groups of cash-generating units that are larger than a segment)
	  o Allocation of goodwill to cash-generating units (or groups of cash-generating units)
	  o Development of impairment models
	  o Consideration of intangible assets arising on consolidation or within the separate financial statements of subsidiaries

[11] On 22 July 2022, ASIC announced that it would extend the deadlines for unlisted entities at June 2022. ASIC will extend the deadline for unlisted entities to lodge financial reports by one month for balance dates from 24 June 2022 to 7 July 2022 (inclusive) and make a number of consequential amendments to associated deadlines (such as the deadline for holding an AGM). At the date of finalisation of this publication, the Corporations Instrument giving effect to the extension had not been made.

Area	Example considerations
Related party transactions and KMP Simplified Disclosures requires disclosure of related party information, including key management personnel remuneration and transactions and balances with related parties	• Determination of who are the entity's key management personnel and their remuneration • Identification of related parties of the reporting entity and each entity in the consolidated group (if consolidated financial statements are prepared), including related parties of key management personnel • Collation of information about transactions, balances and terms of transactions with related parties (throughout the group for consolidated financial statements) – including where related party transactions are made for no consideration (e.g. provision of services for no consideration)
Tax accounting considerations Simplified Disclosures requires the disclosure of information about income taxes, including reconciliations or explanations of income tax expense and deferred taxes and unrecognised deferred tax assets	• Preparation and collation of details of reconciliation information for income tax expense and deferred taxes • Deferred tax considerations associated with consolidation entries (e.g. fair value adjustments, unrealised profits and other eliminations) • Determination of support for (net) deferred tax assets recognised and collation of unrecognised deferred tax assets • Set-off of deferred tax liabilities and deferred tax assets in accordance with AASB 112 *Income Taxes* (e.g. within tax-consolidated groups after considering the nature of temporary differences (revenue vs. capital), in each foreign entity or groups of foreign entities where the set-off requirements are met)
Financial instrument and fair value disclosures Entities with financial instruments area required to disclose information about their financial instruments, including how fair value is calculated for instruments carried at fair value	• Collation of information about the entity's borrowing and other facilities • Development of detailed disclosures of about fair values of instruments carried at fair value • Developments of narrative and quantitative information about hedging arrangements
Financial statement disclosures and comparatives In addition to the above highlighted points, entities are required to include a number of disclosures in their financial statements not generally included in SPFS, where collation of information can prove time consuming	• Development of systems and processes to collate auditable information for disclosures such as: o Disaggregation of revenue and disclosure of revenue streams o Reconciliations of movements in property, plant and equipment, investment property, intangibles, leases, biological assets and provisions (comparative information is not required) o Business combinations o Share-based payments o Employee benefits • Comparative information is required for the majority of disclosures, with limited exceptions even where such disclosures have not been presented in past financial statements or where consolidated financial statements have not previously been prepared[12].

[12] However, exemptions from providing comparative information for note disclosures not previously provided is available where AASB 1060 is adopted early (see 'Additional options on early adoption' on page 5).

Considering early adoption of accounting policy disclosure changes

AASB 2021-6 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards* amends AASB 1060 to change the way in which accounting policies are disclosed in Simplified Disclosures financial reports, requiring disclosure of *material* accounting policy *information* rather *significant* accounting *policies*. The amendments in AASB 2021-6 implement the equivalent changes made for Tier 1 financial statements by AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*.

Under the revised requirements, accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. As a result, standardised information or information that only duplicates or summarises the requirements of Australian Accounting Standards may be less useful to users of financial statements. Removal of this 'boilerplate' information can substantially reduce the volume of disclosure in financial statements.

AASB 101 *Presentation of Financial Statements* notes the following areas as examples where an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and the accounting policy (AASB 101.117B):

Potentially material accounting policy information	Illustrative examples
The entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements	• Adoption of Simplified Disclosures • Applying the IFRIC® agenda decisions on costs of selling inventory and accounting for power purchase agreements (PPAs)
The entity chose the accounting policy from one or more options permitted by Australian Accounting Standards	• Measurement of property, plant and equipment at cost or on the revaluation basis • Classification of investments in equity instruments as fair value through other comprehensive income
The accounting policy was developed in accordance with AASB 108 in the absence of an Australian Accounting Standard that specifically applies	• Accounting for the R&D tax offset as either a government grant or income tax
The accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions	• Determination of cash-generating units when undertaking impairment testing of assets • Allocation of the transaction price to performance obligations and when the entity recognises revenue in relation to complex revenue streams • Treatment of uncertain tax provisions
The accounting required for the material transactions, other events or conditions is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions	• Recognition and measurement of written puts over non-controlling interests • Deferred tax consequences of investments in subsidiaries within tax-consolidated groups

AASB Practice Statement 2 *Making Materiality Judgements* (as amended by AASB 2021-2) provides further detail on determining whether accounting policy information is material.

Whilst not effective until annual reporting periods beginning on or after 1 January 2023, early adoption may be attractive for entities wishing to place an emphasis on meaningful, entity-specific accounting policy information rather than repeating the requirements of Australian Accounting Standards. Making this change as part of the transition to Simplified Disclosures may make sense when the financial statements are being recast under the new Framework.

More information can be found in IFRS in Focus *IASB amends IAS 1 and IFRS Practice Statement 2 with regard to the disclosure of accounting policies*.

Conclusion

The AASB's Simplified Disclosures reporting framework presents both challenges and opportunities for affected entities. It is important that entities consider the requirements carefully and provide sufficient time to understand the requirements, the impacts on the entity's reporting processes and systems, and the opportunities available on transition.

Appendix A – Examples of optional transition exemptions on applying AASB 1

Example 1. Deemed cost – property measured using the cost method

Company A has multiple subsidiaries and is moving from stand-alone SPFS to consolidated financial statements on transition to Simplified Disclosures. Company A owns several buildings which were constructed several years ago and have increased substantially in value, mostly due to increases in underlying land values.

On transition, Company A is eligible to apply AASB 1 and chooses to adopt a deemed cost for its land and buildings, based on assessed fair values and recognises the increase in value in retained earnings. The entity elects to continue to use the cost method going forward and so is not required to revalue land and buildings in subsequent periods (but will continue to depreciate the buildings based on any increased value ascribed to the buildings themselves).

If the entity elected to adopt the revaluation basis for its land and buildings, it could also elect to adopt a deemed cost based on fair value at transition. As the adjustment to fair value is recognised in retained earnings on transition to AASB 1060, this would result in a zero balance in the revaluation surplus reserve on transition to AASB 1060, but means subsequent net decreases in value below the original value would be recognised in profit or loss.

Example 2. Short-cut consolidation method – consolidated financial statements not previously prepared

Company B has a wholly-owned subsidiary, Company C, and has previously prepared stand-alone SPFS on the basis it was not a reporting entity. It has otherwise previously followed all recognition and measurement requirements.

On transition to AASB 1060, the entity is eligible to apply AASB 1 as it did not previously prepare consolidated financial statements. Company B elects to use the 'short-cut consolidation' method, and so determines goodwill based on the difference between Company C's net assets and the carrying amount of Company B's investment (which has been tested for impairment in the separate financial statements of Company B). The entity performs a transitional impairment test of the resultant goodwill and no impairment loss is recognised, and no deferred taxes are recognised in respect of outside basis differences associated with the investment in Company C.

The effect of making this election is illustrated in the table below:

Item	**Company B**	**Company C**	**Consolidation entities**	**Consolidated**
Investment in subsidiary	3,000	-	(3,000)	-
Goodwill	-	-	1,000[(1)]	1,000
Other net assets	7,000	2,000	-	9,000
Net assets	**10,000**	**2,000**	**(2,000)**	**10,000**
Issued capital	2,000	1,000	(1,000)	2,000
Other equity	8,000	1,000	(1,000)	8,000
Total equity	**10,000**	**2,000**	**(2,000)**	**10,000**

(1) Calculated as the difference between the net carrying amount of Company C's net assets ($2,000) and the carrying amount of Company A's investment in Company B ($3,000). No adjustments are made for any fair value adjustments (including intangible assets of Company B) that would arise if the original acquisition of Company B been accounted for as a business combination.

Example 3. Resetting cost of investments – deemed cost of subsidiary

Assume the same facts as in Example 2 above. However, in this instance Company A elects to determine a new deemed cost of its investment in Company B based on its fair value ($4,000) at the date of transition.

Item	Company A	Company B	Revalue investment	Consolidation entities	Consolidated
Investment in subsidiary	3,000	-	1,000[(1)]	(4,000)	-
Goodwill	-	-	-	2,000[(2)]	2,000
Other net assets	7,000	2,000	-	-	9,000
Net assets	**10,000**	**2,000**	**1,000**	**(2,000)**	**11,000**
Issued capital	2,000	1,000	-	(1,000)	2,000
Other equity	8,000	1,000	1,000	(1,000)	9,000
Total equity	**10,000**	**2,000**	**1,000**	**(2,000)**	**11,000**

(1) Calculated as the difference between the original carrying amount of the investment in the subsidiary ($3,000) and its fair value at the date of transition ($4,000). This increase is reflected in opening equity (retained earnings). The deemed cost becomes the new cost of Company A's investment in Company B. Accordingly, there is no requirement to adopt a fair value basis to measure the investment in subsequent periods.

(2) Calculated as the difference between the net carrying amount of Company B's net assets ($2,000) and the deemed cost of Company A's investment in Company B ($4,000). No adjustments are made for any fair value adjustments (including intangible assets of Company B) that would arise if the original acquisition of Company B been accounted for as a business combination.

Example 4. Foreign operations – resetting translation differences

Company D has a wholly-owned foreign subsidiary, Company E, and has previously prepared stand-alone SPFS on the basis it was not a reporting entity. It has otherwise previously followed all recognition and measurement requirements. Company D has a presentation and functional currency of Australian dollars, and Company E as a US dollar functional currency.

On transition to AASB 1060, the entity is eligible to apply AASB 1 as it did not previously prepare consolidated financial statements. The entity has sufficient information to restate the business combination that arose on its initial acquisition of Company E a number of years prior to transition. Accordingly, the entity makes adjustments at the date of transition as though the acquisition of Company E was accounted for as a business combination at the original acquisition date.

The retrospective restatement involves recognising fair value adjustments in respect of Company E's assets and liabilities (including intangible assets not recognised by Company E itself) at the date of acquisition. In addition, subsequent amortisation and impairment of those fair value adjustments from the date of acquisition to the date of transition are calculated and recognised at the date of transition.

However, Company D elects to reset the foreign currency translation reserve in respect of Company E to zero on the date of transition. This avoids the need to retrospectively recalculate the impacts of translating Company E to the presentation currency of the group during from the date of acquisition to the date of transition.

Example 5. Foreign operations – deeming assets to be in functional currency

Assume the same facts as in Example 4. In addition to resetting the foreign currency translation reserve to zero, Company D also elects to deem the fair value adjustments arising in respect of Company E to be in Australian dollars (being the presentation currency used to present Company D's financial statements).

The effect of this election is that the carrying amounts of the fair value adjustments (including intangible assets recognised on consolidation) and goodwill are not required to be retranslated to Australian dollars each reporting period for the purposes of consolidation. Instead, the historical amounts are considered to be denominated in Australian dollars even though they relate to Company E which has a US dollar functional currency.

Going forward, the remaining assets, liabilities, revenues and expenses of Company E will be subject to translation and give rise to amounts being recognised in the foreign currency translation reserve. However, no such adjustments will arise in respect of the fair value adjustments and goodwill. However, these assets will continue to be allocated to cash-generating units when performing impairment assessments.

Example 6. Using carrying amounts derived from a parent's consolidated financial statements

Company F is incorporated in the United Kingdom and acquired Company G in 2003. On transition to IFRS in 2005, Company F in its consolidated financial statements elected to deem the cost of a building held by Company G to be its fair value at its date of transition, which increased the carrying amount of the building in Company F's consolidated financial statements.

Company F did not subsequently adopt the revaluation basis of measurement for buildings held by the group (so the building was measured at deemed cost). Company F subsequently depreciated the higher carrying amount of the building in its consolidated financial statements over the useful life of the building. The building continues to be owned by Company G.

On transition to Simplified Disclosures, Company G elects to adopt the deemed cost of the building in Company F's consolidated financial statements at Company F's (earlier) date of transition. However, it also reflects the subsequent depreciation of the higher carrying amount at Company's G's date of transition.

As a result, the carrying amount of Company G's building will be the same in the Company F's consolidated financial statements and Company G's Simplified Disclosure financial statements. This will eliminate the consolidation adjustments made by Company F in respect of the building.

Appendix B – Explaining the transition to Simplified Disclosures in financial statements where AASB 108 is applied

Background

This Appendix provides illustrative wording that can used as a guide in developing transition disclosures in the first set of financial statements prepared when applying Simplified Disclosures, where AASB 108 has been applied on transition and there are no changes in recognition and measurement requirements. The wording should be adapted to the entity's individual circumstances.

These illustrative disclosures do not provide examples of entities transitioning to Simplified Disclosures using AASB 108 where the entity is also eligible to apply AASB 1. In these circumstances, there will usually be changes to recognition and measurement of amounts compared to the previous financial statements prepared. Accordingly, the entity will be required to provide more information in order to meet the requirements of paragraph 106 of AASB 1060, dealing with the disclosure of changes in accounting policies.

Furthermore, the illustrative disclosures do not include examples where entities apply Simplified Disclosures to periods beginning before 1 July 2021 where the short-term exemptions in Appendix E of AASB 1053 *Application of Tiers of Australian Accounting Standards* have been applied.

Transition to Simplified Disclosures under AASB 1

Where an entity applies AASB 1 on transition to Simplified Disclosures, there are more extensive disclosures required in order to meet the requirements of AASB 1060.206-213 or Appendix E of AASB 1053.

The disclosures required where AASB 1 has been applied on transition to Simplified Disclosures are illustrated in our *Tier 2 Simplified Disclosures model financial reports*. There are two versions of the model financial statements available, one illustrating early adoption of Simplified Disclosures and one illustrating first-time mandatory adoption. These model financial statements are available at www.deloitte.com/au/models.

When the illustrative disclosures in this Appendix would be applied

The illustrative disclosures in this Appendix would be applied where the entity's previous SPFS or RDR GPFS were prepared:

- As stand-alone financial statements (as the entity did not have any subsidiaries, joint ventures or associates) and the Simplified Disclosures are also prepared on the same basis
- Using equity accounting principles (because the entity had investments in joint ventures or associates but not associates) and the Simplified Disclosures are also prepared on the same basis
- As separate financial statements in accordance with AASB 127 *Separate Financial Statements* (because the entity had subsidiaries, joint ventures and/or associates) and the Simplified Disclosures GPFS are also prepared as separate financial statements because the entity is eligible for the consolidation exemption in paragraph 4(a) of AASB 10 *Consolidated Financial Statements* in both the current and previous periods
- On a consolidated basis (including equity accounting principles if relevant) and the Simplified Disclosures GPFS are also prepared on a consolidated basis (including equity accounting principles if relevant).

Where the primary financial statements have not changed

The illustrative disclosures in this section would be applied where the entity's primary financial statements have not changed. This would be the case except where the entity is eligible to prepare, and prepares, a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity (where permitted by AASB 1060.26, 62).

Illustrative disclosure – Transition from SPFS to Simplified Disclosures

"The company has applied AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) for the first time in the current period in order to comply with Australian Accounting Standards – Simplified Disclosures. On transition to Australian Accounting Standards – Simplified Disclosures, the entity has applied the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires the full retrospective application of AASB 1060. The company prepared its most recent previous financial statements in the form of special purpose financial statements and applied all applicable recognition and measurement requirements of Australian Accounting Standards in preparing those financial statements. Accordingly, the application of AASB 1060 has not impacted the recognition and measurement of amounts presented in the financial statements, but has changed the disclosures included in the notes to the financial statements. Comparative information has been provided for all additional disclosures included in the notes to the financial statements where required by AASB 1060."

Illustrative disclosures – Transition from RDR to Simplified Disclosures

"The company has applied AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) for the first time in the current period in order to comply with Australian Accounting Standards – Simplified Disclosures. On transition to Australian Accounting Standards – Simplified Disclosures, the entity has applied the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires the full retrospective application of AASB 1060. The company prepared its most recent previous financial statements in the form of general purpose financial statements complying with Australian Accounting Standards – Reduced Disclosure Requirements. Accordingly, the application of AASB 1060 has not impacted the recognition and measurement of amounts presented in the financial statements, but has changed the disclosures included in the notes to the financial statements. Comparative information has been provided for all additional disclosures included in the notes to the financial statements where required by 1060."

Where the entity prepares a single statement of income and retained earnings

The illustrative disclosures in this section would be applied where the entity's primary financial statements include a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity (where permitted by AASB 1060.26, 62).

Illustrative disclosures – Transition from SPFS to Simplified Disclosures

"The company has applied AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) for the first time in the current period in order to comply with Australian Accounting Standards – Simplified Disclosures. On transition to Australian Accounting Standards – Simplified Disclosures, the entity has applied the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires the full retrospective application of AASB 1060. The company prepared its most recent previous financial statements in the form of special purpose financial statements and applied all applicable recognition and measurement requirements of Australian Accounting Standards in preparing those financial statements. Accordingly, the application of AASB 1060 has not impacted the recognition and measurement of amounts presented in the financial statements, but has changed:

- The presentation of the primary financial statements, in that a single statement of income and retained earnings has been presented in place of the statement of comprehensive income and statement of changes in equity previously presented
- The disclosures included in the notes to the financial statements.

Comparative information has been provided for all additional disclosures included in the notes to the financial statements where required by AASB 1060."

Illustrative disclosures – Transition from RDR to Simplified Disclosures

"The company has applied AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) for the first time in the current period in order to comply with Australian Accounting Standards – Simplified Disclosures. On transition to Australian Accounting Standards – Simplified Disclosures, the entity has applied the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires the full retrospective application of AASB 1060. The company prepared its most recent previous financial statements in the form of general purpose financial statements complying with Australian Accounting Standards – Reduced Disclosure Requirements. Accordingly, the application of AASB 1060 has not impacted the recognition and measurement of amounts presented in the financial statements, but has changed:

- The presentation of the primary financial statements, in that a single statement of income and retained earnings has been presented in place of the statement of comprehensive income and statement of changes in equity previously presented
- The disclosures included in the notes to the financial statements.

Comparative information has been provided for all additional disclosures included in the notes to the financial statements where required by AASB 1060."

Appendix C – Early adoption

Benefits of early adoption

The following table outlines some of the benefits of early adoption, i.e. where an entity applies AASB 1060 to a reporting period beginning before 1 July 2021:

01 **Modified transitional approach**

Entities moving from SPFS to AASB 1060 that apply AASB 1 on transition can elect to adopt a modified transition approach that means comparative information is not restated, and only the current year needs to be restated. This is expected to most often apply when an entity is moving from stand-alone SPFS to consolidated financial statements under AASB 1060. This can also assist where auditing the comparative information is difficult.

02 **Avoids multiple frameworks**

Entities that face a requirement to prepare financial statements for the first time, or need to prepare GPFS, may prefer to adopt AASB 1060 to avoid a further transition in the short-term. For example, this may arise where an entity is newly incorporated, or a company becomes a large proprietary company under the *Corporations Act 2001*, or becomes a 'CBC reporting entity' that is required to prepare GPFS under s.3CA of the *Tax Administration Act 1953*.

03 **Less disclosure overall than RDR**

If the entity is already preparing GPFS using RDR, it may be beneficial to adopt AASB 1060 as the overall volume of disclosure required is less than RDR. Whilst there are some additional disclosures required when compared to RDR, these will generally be far outweighed by the other disclosures that can be omitted or simplified under AASB 1060. However, ultimate Australian parents will not be able to take advantage of the consolidation exemption in AASB 10 *Consolidated Financial Statements* (see the discussion on page 10) but are able to apply AASB 1 on transition (see the details of AASB 2022-2 on page 2).

04 **Relief available for comparative note information not previously provided**

All entities applying AASB 1060 for periods beginning before 1 July 2021 are not required to present comparative information in the notes if the entity did not disclose the comparable information in its most recent previous financial statements. This avoids the need to collate and audit information not previously required and is designed to ease the transition process.

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