

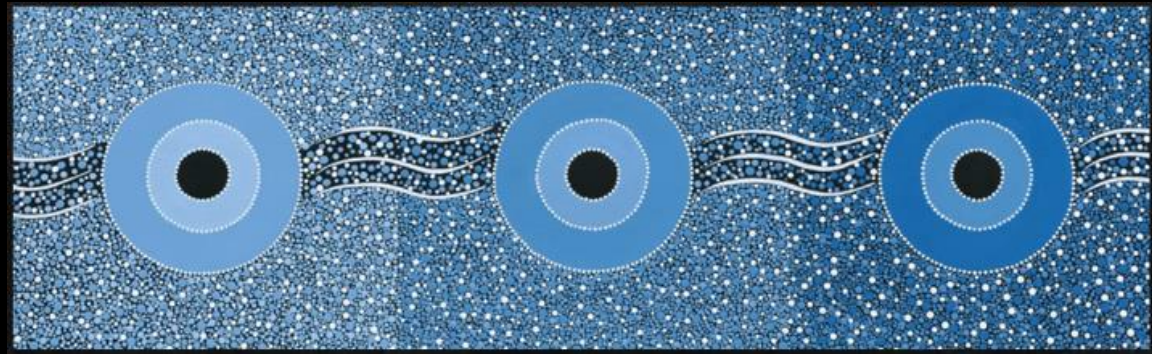
Client reporting update – May 2022

Bringing the pieces together

May 2022

Acknowledgement of Country

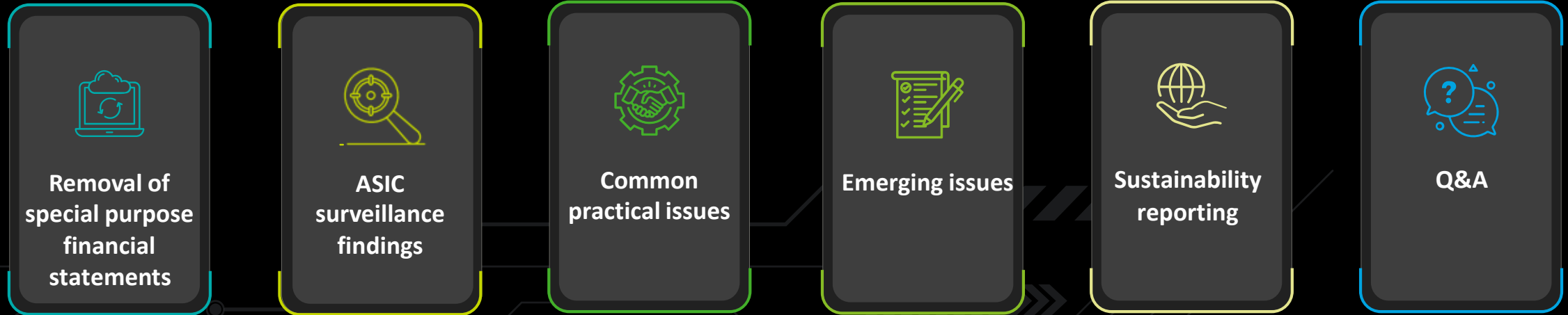
“We acknowledge the Gadigal of the Eora Nation, the traditional custodians of the land on which we meet, and their continuing connection to the land and community



We pay respect to them and their culture, and the elders past, present and emerging”

Artwork: Nyiirun Gathay Yayn.Giliyn (“Walking Together”) by Birrbay artist Angela Marr-Grogan

Agenda



Alison White
Lead Partner
Accounting Technical



Jonathan Streng
Director
Accounting Technical

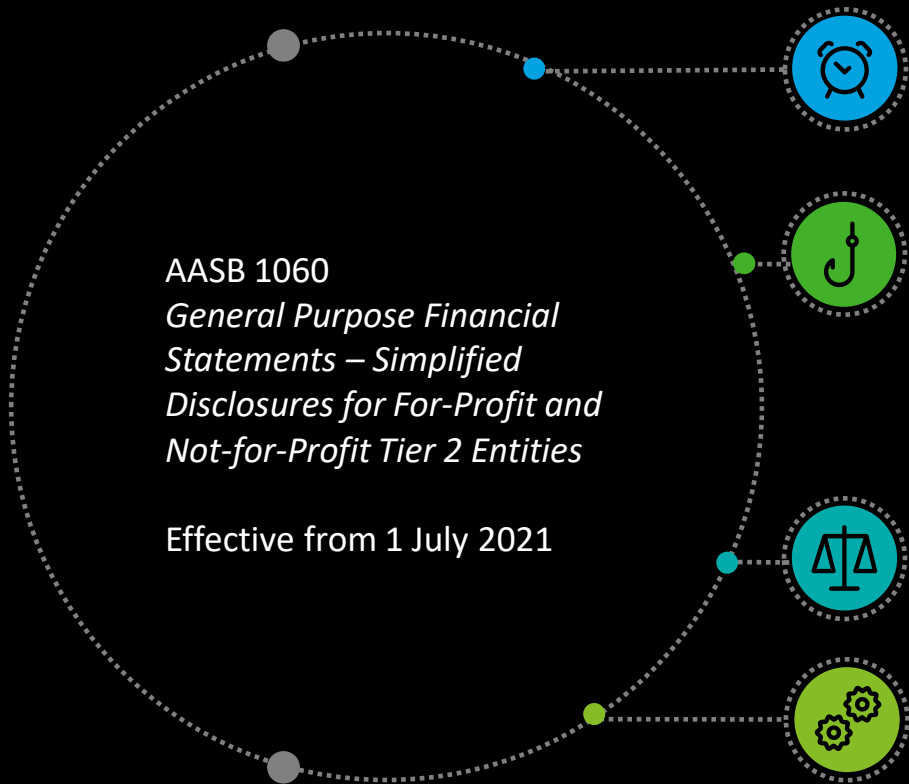


Holly Hunt
Director
Accounting Technical



Removal of special purpose financial statements

AASB 1060 – the new Simplified Disclosures framework



Act now – mandatory for June 22 reporting season

Who does it impact?

- Entities that prepare Tier 2 Reduced Disclosure Requirements financial statements
- For profit entities that prepared Special Purpose Financial Statements
- Legislative requirement to prepare financial statements that comply with ‘accounting standards’ or ‘Australian Accounting Standards’ or
- Non-legislative requirement to prepare financial statements that comply with ‘Australian Accounting Standards’ and document created or amended on or after 1 July 2021

Understand transition requirements to ensure optimal outcomes

Plan to achieve transition within reporting deadlines



Does not apply to NFP entities that preparing Special Purpose Financial Statements



Removal of special purpose financial statements

Resources

Deloitte.



Model Tier 2 financial report
Financial reporting periods ending on or after 30 June 2022

[Model financial statements](#)

Deloitte.



Simplified Disclosures – Transition options and opportunities

The new 'Simplified Disclosures' Tier 2 financial reporting framework came into effect from 1 July 2021 and will apply for the first time on 30 June 2022 (see our [earlier publication](#)). In this publication we explain 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.

"The new Simplified Disclosures framework presents a significant compliance challenge and entities should underestimate the amount of effort required to transition to the new framework."

Alison White
Lead Partner – Accounting

[Simplified Disclosures – Transition options...](#)

Clarity in financial reporting

Deloitte.



Removal of special purpose financial statements

The ability of many for-profit entities to prepare special purpose financial statements has been removed with effect from 1 July 2021. In the new Tier 2 'Simplified Disclosures' Standard generally provides relief when compared to 'Reduced Disclosure Requirements'.

The key impacts include:

- The reporting entity concept has been a long-term feature of the Australian financial reporting landscape. It represents a major change to prior practice.
- Many private sector for-profit entities will be required to prepare general purpose financial statements (GPFS) with Australian Accounting Standards or accounting standards, such as large proprietary companies, unlisted companies and small foreign-controlled proprietary companies.
- Trusts, partnerships and similar entities where the constituting document or another document (such as an agreement) requires preparation of financial statements in accordance with Australian Accounting Standards, these documents are created or amended on or after 1 July 2021.
- Any for-profit entity that chooses voluntarily to prepare GPFS.
- The Reduced Disclosure Requirements (RDR) has been replaced with new Simplified Disclosures to be used (both for-profit and not-for-profit entities) that have fewer disclosures than RDR.
- Under Simplified Disclosures, an ultimate Australian parent is required to prepare consolidated financial statements with no exemption for non-reporting entities. As a result, CIC reporting entities will no longer be able to prepare GPFS where a foreign parent prepares consolidated GPFS in accordance with International Financial Reporting Standards (IFRS®).

There is no impact on:

- Tier 1 entities. Entities with public accountability and certain public sector entities continue to prepare Tier 1 financial statements.
- Not-for-profit and public sector entities that prepare special purpose financial statements. These are subject to the project.

[Removal of special purpose financial statements](#)

Clarity in financial reporting

Deloitte.



Article

Tier 2 (Simplified Disclosures) presentation and disclosure checklist (June 2021)

A guide to required presentation and disclosure under Australian Accounting Standards - Simplified Disclosures

This Excel workbook can be used by entities applying Australian Accounting Standards - Simplified Disclosures.

The workbook summarises the presentation and disclosure requirements of AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and other relevant Australian Accounting Standards on issue as of 31 December 2020 and as effective for annual reporting periods beginning on or after 1 July 2021.

The checklist also accommodates entities that wish to early adopt AASB 1060 prior to this date.

The workbook includes cross references to our Tier 2 Simplified Disclosures model financial statements.

Conditions

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[Disclosure checklist](#)



Article

Simplified Disclosures framework webcast

Understanding the removal of the reporting entity concept and the new 'Simplified Disclosures' framework

This special edition webcast:

- Provides a summary of the Simplified Disclosure requirements arising under AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*
- Outlines which entities are required to apply Simplified Disclosures
- Explains the transition process, including a worked example of AASB 1's 'short-cut consolidation' method.

Published - April 2022

Contact us

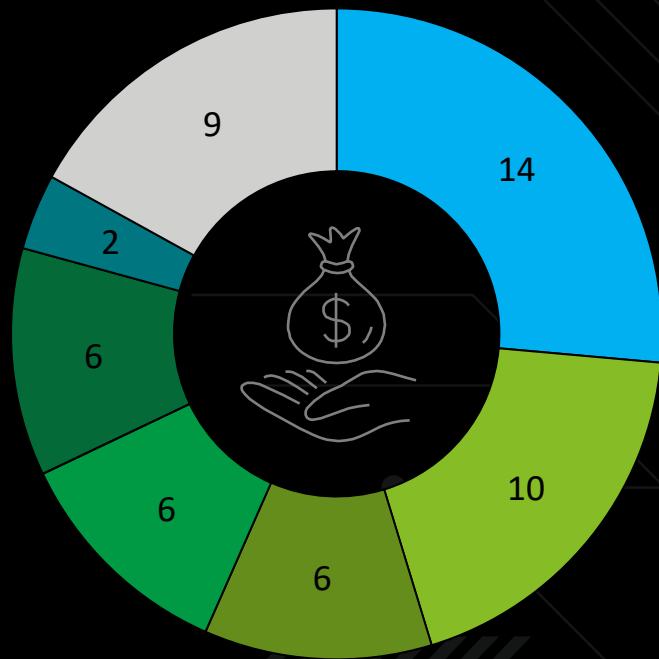
[AASB 1060 Webinar](#)



ASIC surveillance findings

Years ended March/June 2021

Reviewed financial reports of 150 listed and other public interest entities
 Made inquiries of 29 entities on 53 matters



- Impairment and expected credit losses
- Revenue recognition
- Expense deferral
- Borrowings, leases, non-IFRS, SaaS and other
- Operating and Financial Review
- Tax accounting
- Business combinations

Please provide

- Cash flow model
- Discount rate calculation
- Board papers explaining management's approach to key assumptions. Explain whether they reflect past experience or are consistent with external sources of information
- External reports
- Sensitivity calculations
- Reconciliation of non-current assets and working capital to the balance sheet
- Valuation cross checks
- Board and audit committee papers



Common practical issues

Impairment

Cash flow forecasts

Reasonable and supportable assumptions,
greater weight to external evidence
Projections – maximum five years
Terminal value growth – steady or declining

Cash-generating unit identification

Independent cash inflows
Goodwill may not be tested at a level
higher than an operating segment

Disclosures

Estimation uncertainties
Key assumptions
Sensitivity analyses



Common practical issues

Revenue



Identifying performance obligations



Pervasive to revenue recognition



Principal versus agent



Misstatement of revenue and cost of sales (gross vs net)



Variable consideration

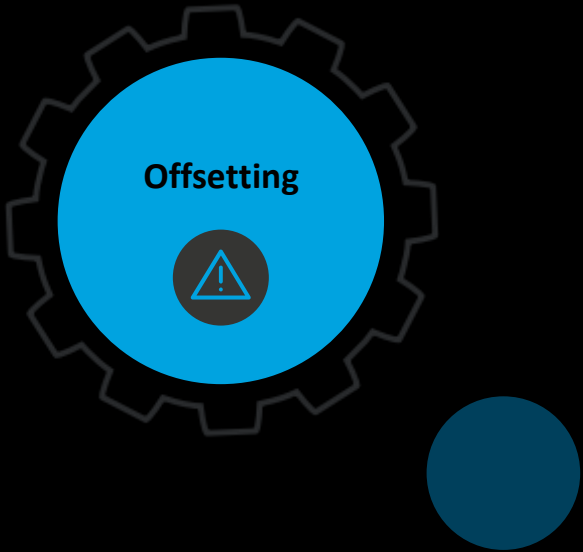


Recognition of revenue that requires reversal

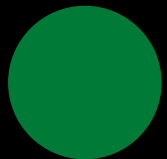


Common practical issues

Tax accounting



Tax rate reconciliation	Amount
Profit before tax	1 000
Tax @ 30%	300
Deferred tax asset not previously recognised	(xxx)
Tax effect of non-deductible expenses	xxx
Tax effect of non-assessable income	(xxx)
Total income tax	xxx





Common practical issues

Contingent payments to selling shareholders

Example

- Entity A acquires Entity B (fair value of net assets \$2.5m)
- Consideration = \$3m in cash upfront plus a potential cash earn-out of \$1m payable after 3 years
- The earn out is only payable if certain targets are met
- Earn out fair value (and actual payment) is \$0.8m

Question

Is the earnout consideration for the business combination or remuneration for post-acquisition services?

AASB 3 Business Combinations
B55



Does the vendor forfeit the earn-out if they were to leave employ within the 3 years?

No

Yes



Link to service
=
Post combination

Earn-out = Consideration	\$m
Consideration	3.8
Net assets	2.5
Goodwill	1.3

Earn-out = Remuneration	\$m
Consideration	3.0
Net assets	2.5
Goodwill	0.5
Remuneration expense (over 3 years)	0.8



Common practical issues

Debt vs equity classification

Why this matters?

- Entity A needs a cash injection to support its business operations
- Investor B provides \$100m to Entity A for certain contractual agreed returns
- Entity A debits 'cash' – what is the other side of the entry?

Balance sheet 1	\$m
Assets	
Cash	100
Equity	
Share capital	(100)

Balance sheet 2	\$m
Assets	
Cash	100
Liabilities	
Debt	(100)

Which one would you invest in?

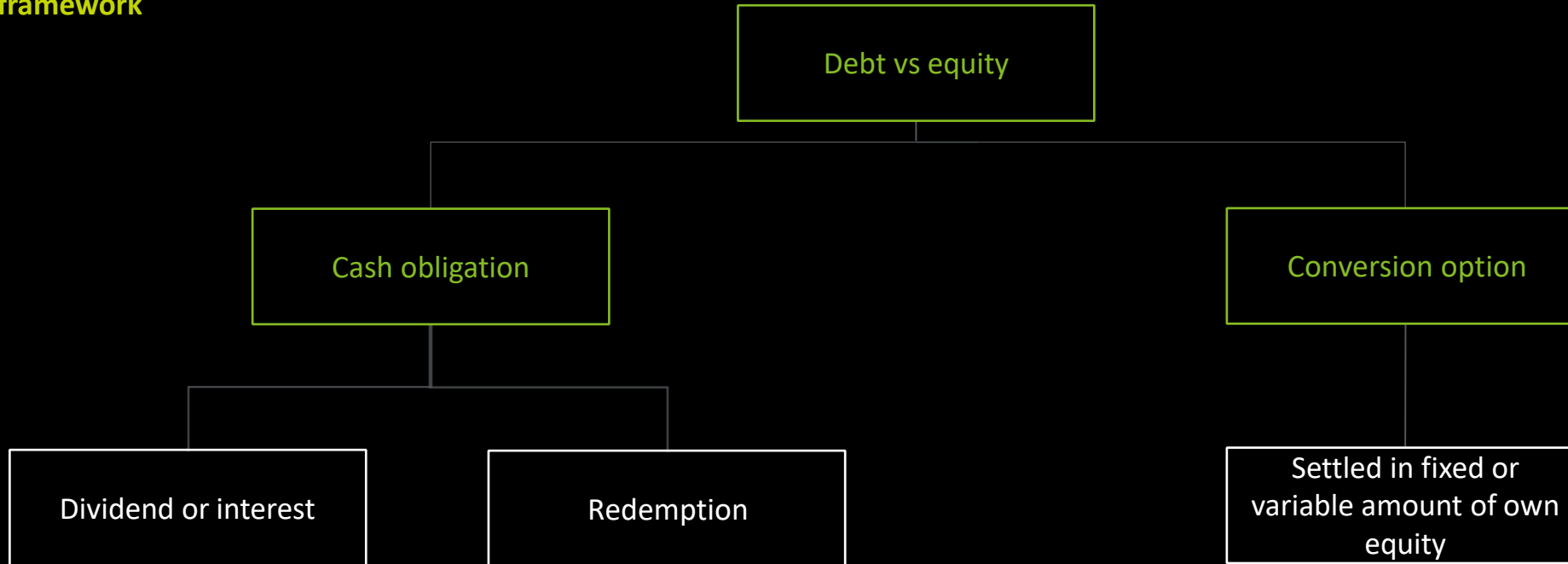




Common practical issues

Debt vs equity classification

A framework

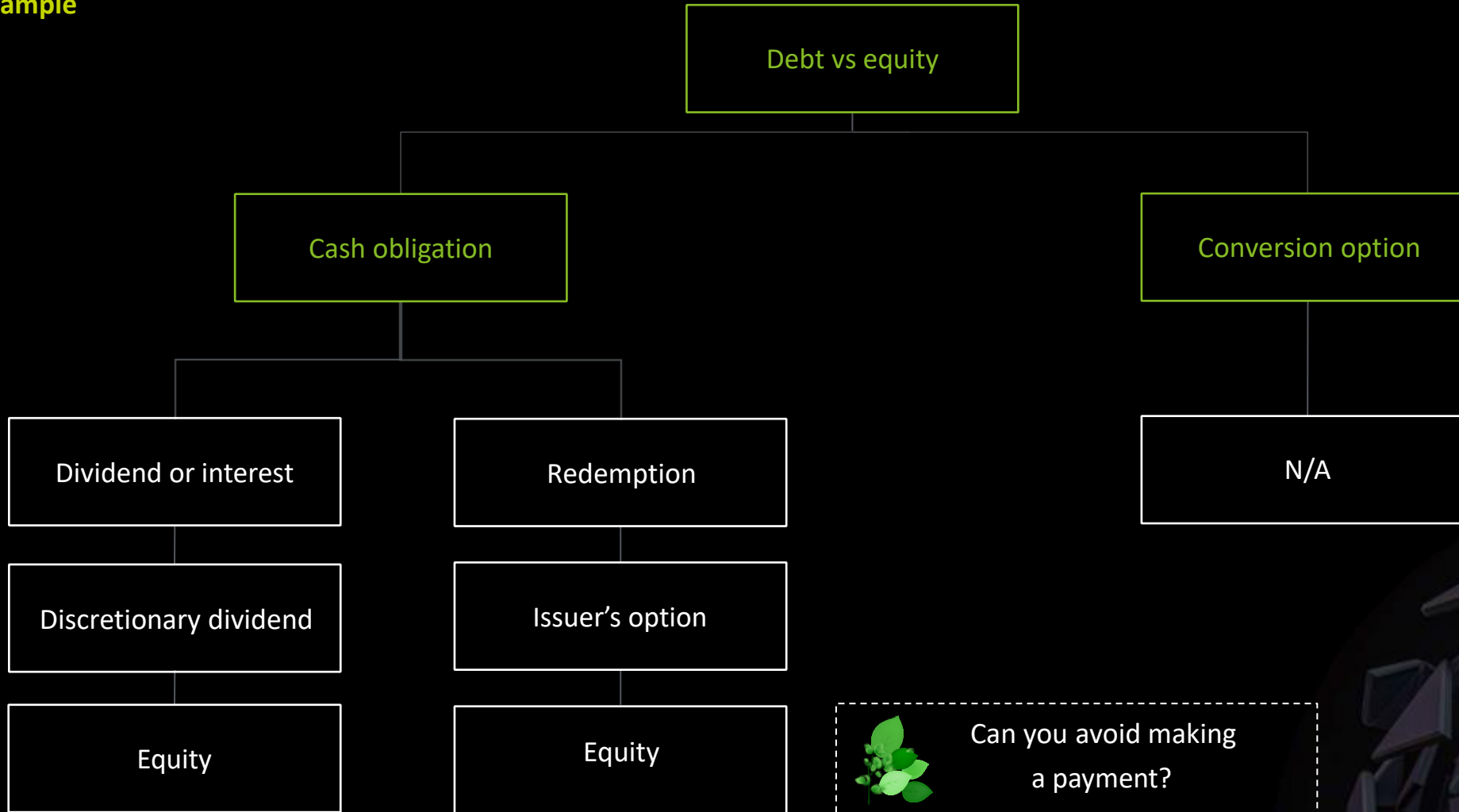





Common practical issues

Debt vs equity classification

Example



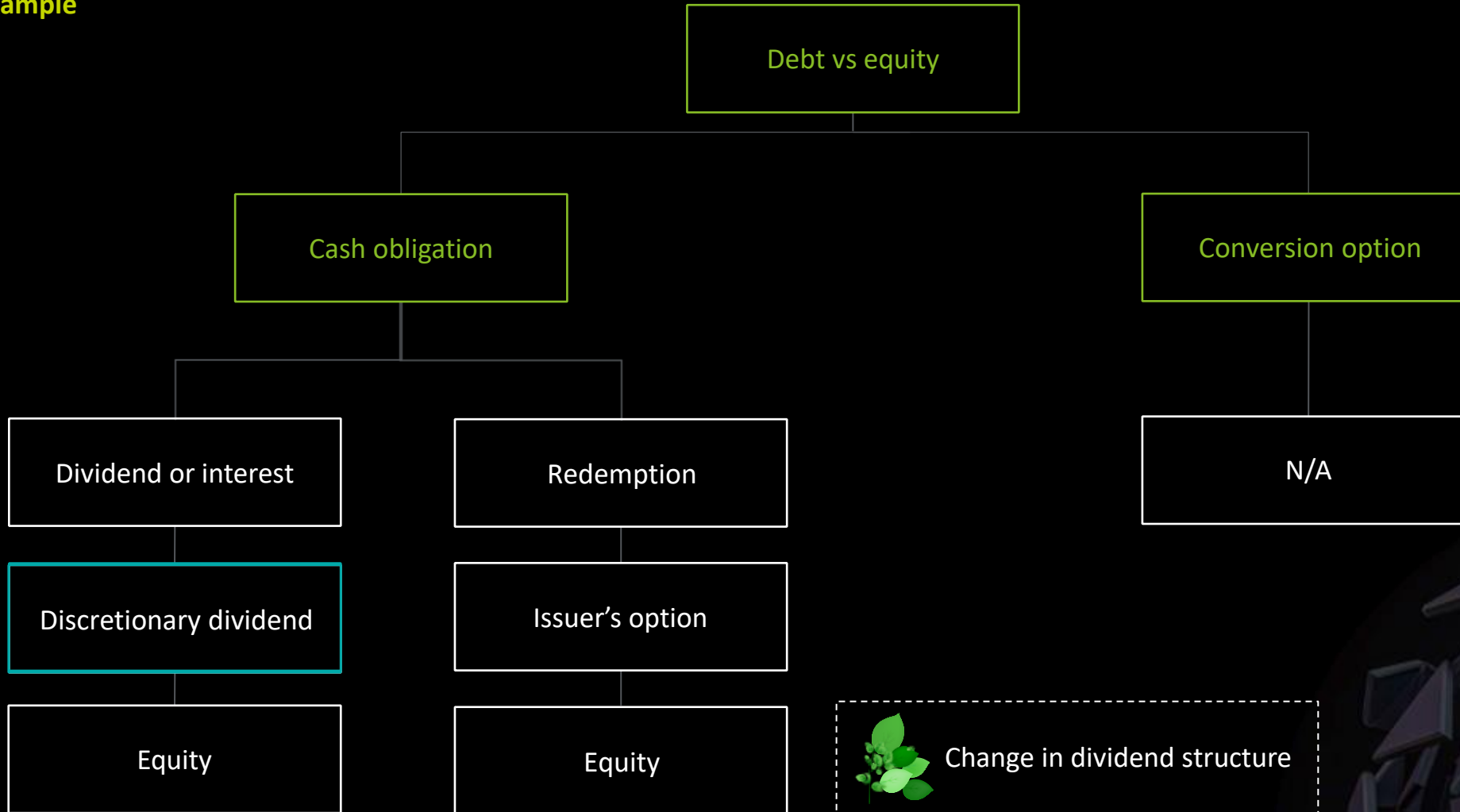
 Can you avoid making a payment?



Common practical issues

Debt vs equity classification

Example

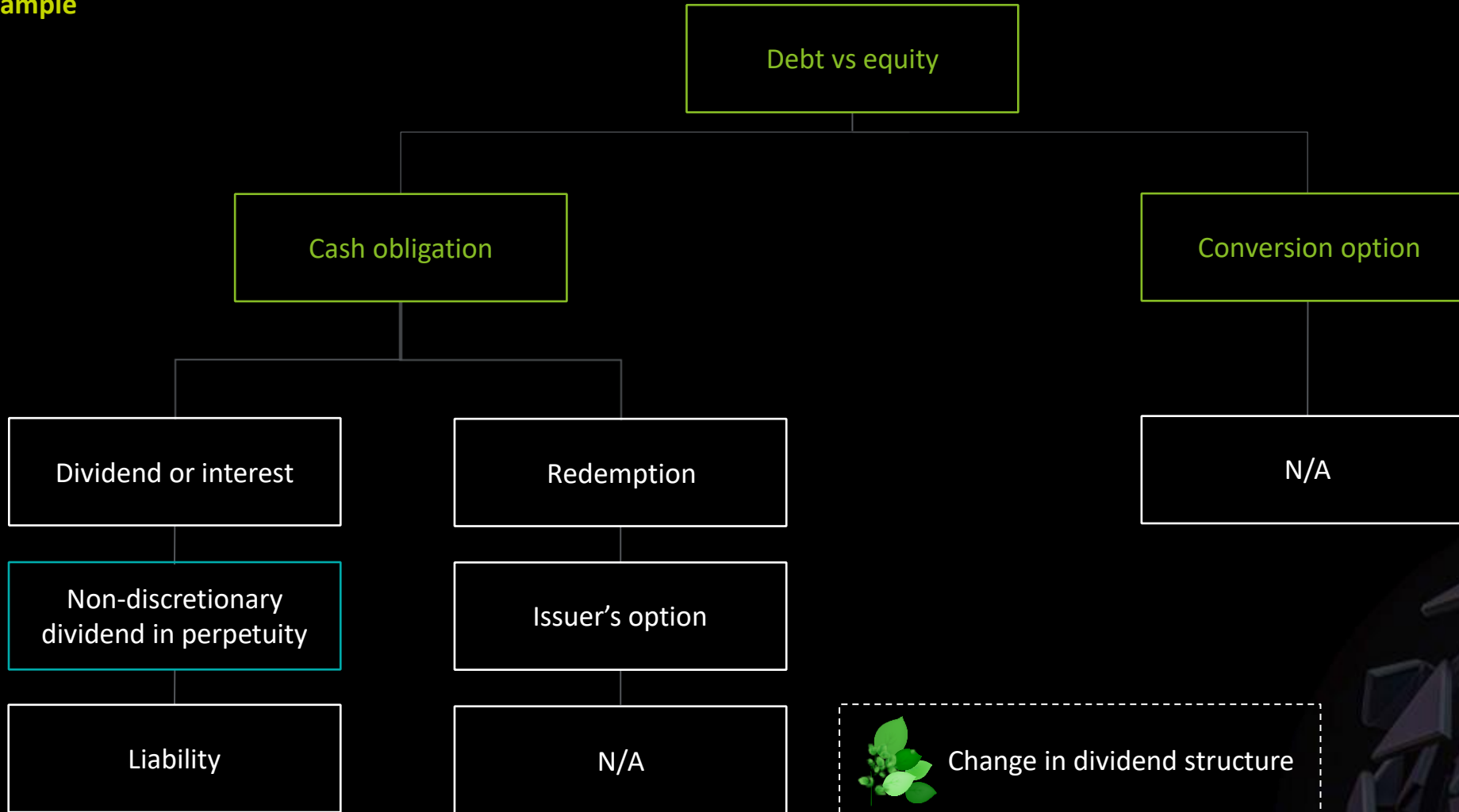





Common practical issues

Debt vs equity classification

Example

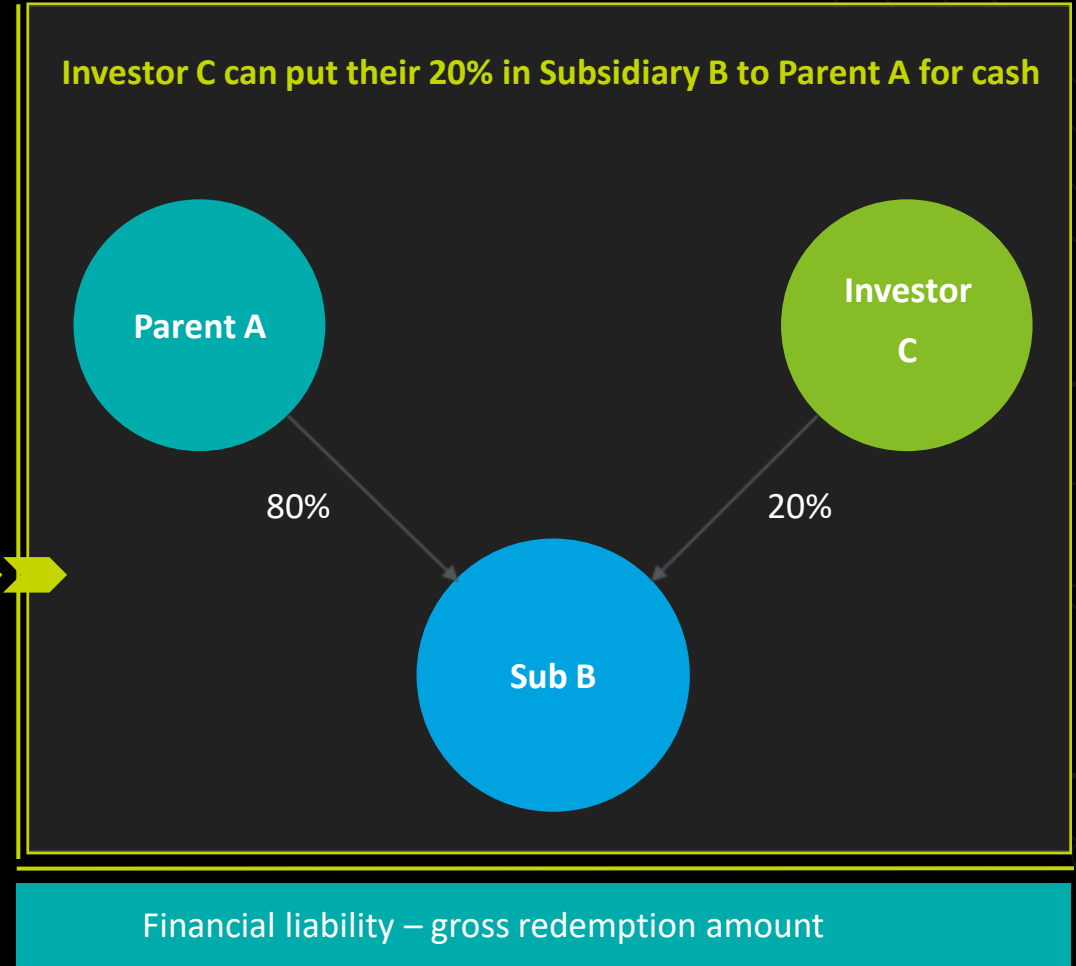


 Change in dividend structure



Common practical issues

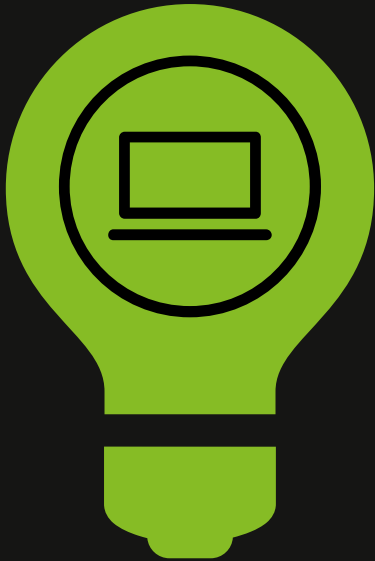
Liabilities





Emerging issues

IFRS Interpretations Committee updates



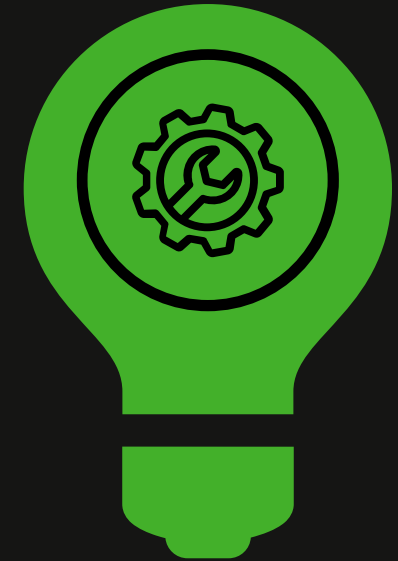
Inventories

Estimated costs necessary to make the sale are **not limited** to those that are incremental when determining net realisable value



Demand deposits with restrictions on use

Unless restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in AASB 107 *Cash Flow Statements* such deposits may still be classified as cash



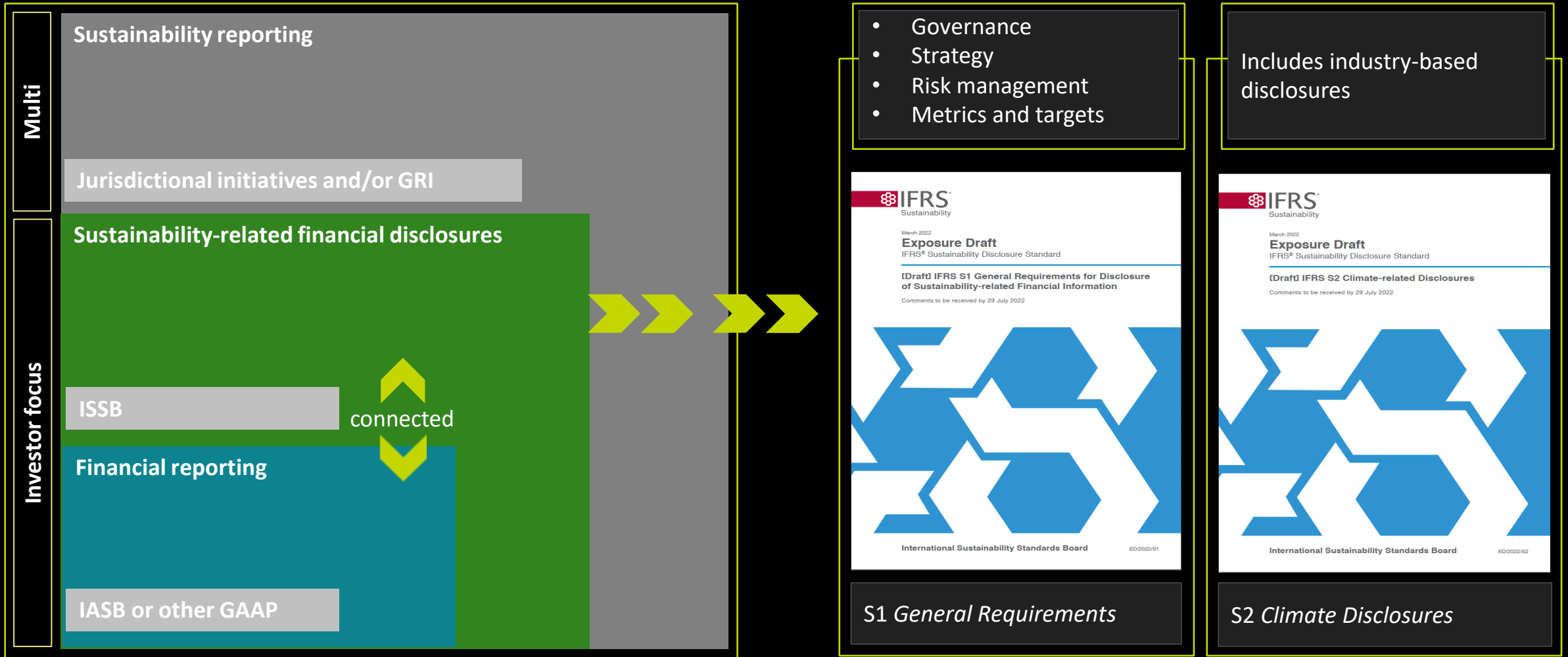
Software-as-a-Service arrangements (SAAS)

Majority of costs relating to SAAS arrangements need to be expensed, with only limited scope for capitalisation in certain circumstances



Sustainability reporting

Global developments – the building blocks approach



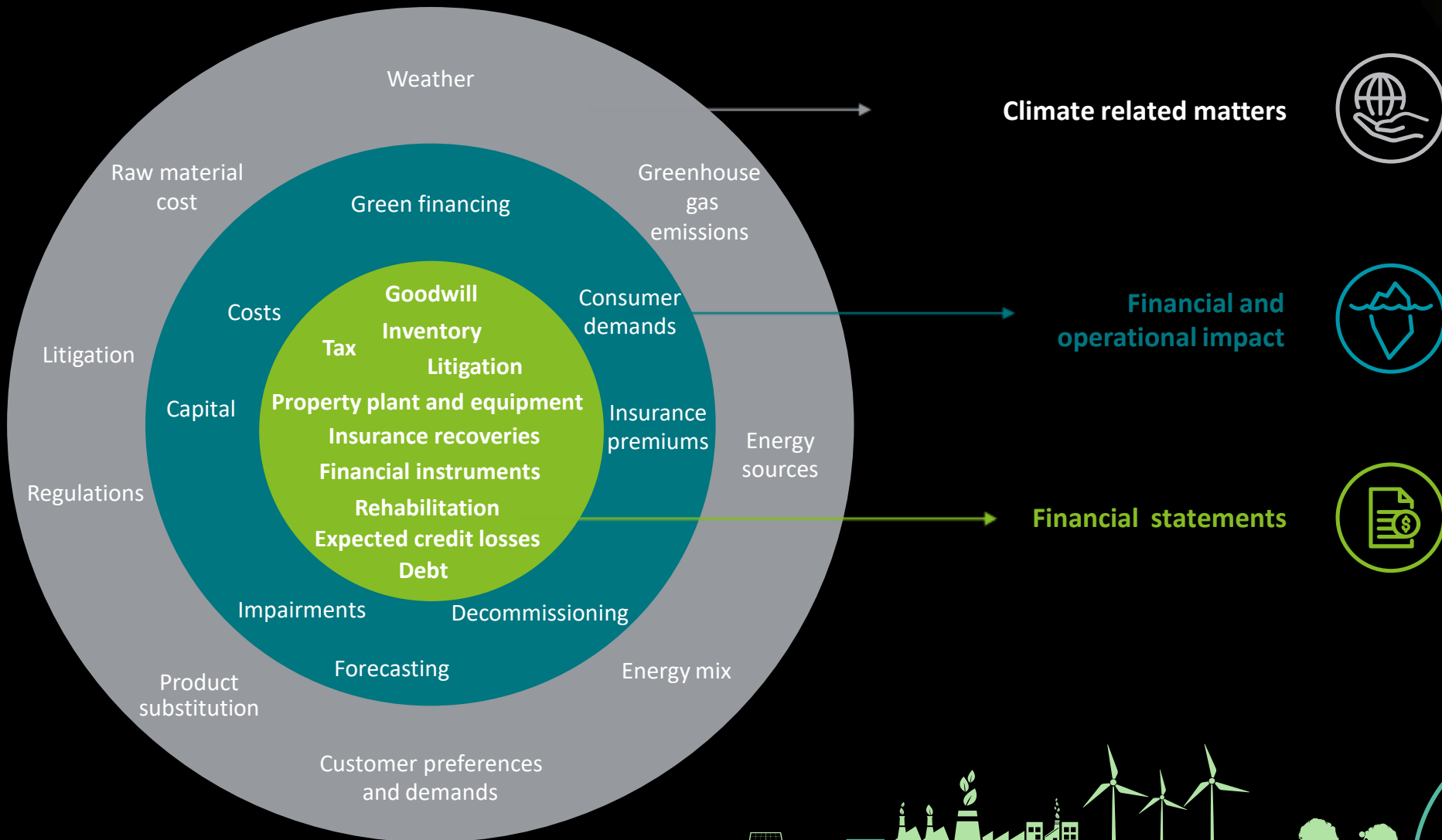
Source: ISSB's April 2022 webinar



Comments due by 15 July to AASB and 29 July 22 to ISSB

Sustainability reporting

Impact on the financial statements



Resources

Deloitte.com\clarity in financial reporting

Deloitte. Clarity in financial reporting January 2022

Deloitte. Clarity in financial reporting NOVEMBER 2020

Deloitte. ABA Accounting Technical May 2017

Deloitte. Clarity in financial reporting MAY 2021

Deloitte. Tier 1 models and reporting considerations Financial reporting periods ending on or after 30 June 2022

Deloitte. Australian financial reporting guide 11th Edition (May 2022)

Responding to ASIC areas of focus

Disaggregated revenue disclosures

Clarity in financial reporting
Focusing on impairment issues for June 2017

Tier 1 models and reporting considerations

Australian financial reporting guide
11th Edition (May 2022)



Questions & Answers





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