



# Summary of Tier 3 Requirements and Extent of Simplifications in Comparison to Tier 2

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# Introduction

This document provides an overview of the reporting requirements set out in AASB 1061 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* (i.e. the Tier 3 Standard).

It compares the reporting requirements with existing Tier 2 reporting requirements and summarises the types of simplifications set out in the Tier 3 Standard.<sup>1</sup>

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1 Australian Accounting Standards currently consist of three tiers of reporting requirements for preparing general purpose financial statements:

- a. Tier 1: Australian Accounting Standards;
- b. Tier 2: Australian Accounting Standards – Simplified Disclosures. Tier 2 entities apply the disclosure requirements in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and the Tier 1 recognition and measurement requirements contained in separate suites of relevant topic-based Tier 1 Australian Accounting Standards; and
- c. Tier 3: Australian Accounting Standards – Simplified Accounting

## Types of simplifications proposed in Tier 3 compared with Tier 2 Reporting Requirements

### 1. Omission of Uncommon Requirements and Topics

Where Tier 3 requirements do not include requirements or guidance on certain transactions, other events or conditions because they are expected to be uncommon to smaller NFP private sector entities that may apply the Tier 3 Standard (i.e. Tier 3 entity).

### 2. Simplification of Drafting Language

Where Tier 3 requirements do not include requirements or guidance on certain transactions, other events or conditions because they are expected to be uncommon to a Tier 3 entity.

### 3. Simplification of Presentation

Where Tier 3 presentation requirements contain simplification of corresponding Tier 2 reporting requirements.

### 4. Simplification of recognition or measurement requirements

Where Tier 3 recognition or measurement (R&M) requirements contain simplification of corresponding Tier 2 reporting requirements.

### 5. Provision of Accounting Policy Choice

Where Tier 3 reporting requirements provide an accounting policy choice in addition to those contained in Tier 1 or Tier 2 reporting requirements.

### 6. Fewer Disclosures

Where Tier 3 requirements have fewer disclosures compared with Tier 2 requirements.

### 7. Additional disclosures supplementing simplified R&M requirements -

where Tier 3 requirements contain simpler R&M requirements than corresponding Tier 2 reporting requirements, in some cases, these simplifications are supplemented by additional disclosure requirements.

## Section 1: Objective, Scope and Application (Topics 'omitted' from the Tier 3 Standard)

### Simplifications

- ✓ Omission of uncommon requirements/ topics

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Entities applying Tier 2 reporting requirements apply the R&amp;M requirements in the relevant topic-based Australian Accounting Standards (AAS) but the presentation and disclosure requirements in AASB 1060.</p>	<p>Entities applying the Tier 3 Standard are required to apply the disclosure requirements in AASB 1060 and the R&amp;M requirements in the relevant topic-based AAS for the following:</p> <ul style="list-style-type: none"> <li>• AASB 2 <i>Share-based Payment</i>, in relation to share-based payment arrangements;</li> <li>• AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>, in relation to non-current assets held for sale except for: <ul style="list-style-type: none"> <li>○ financial assets within the scope of Section 10 of the Tier 3 Standard; and</li> <li>○ investment properties measured using the fair value model in Section 14 of the Tier 3 Standard;</li> </ul> </li> <li>• AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>, in relation to exploration for, and evaluation of, mineral resources;</li> <li>• AASB 9 <i>Financial Instruments</i> and other applicable Australian Accounting Standards, in relation to the financial instruments listed in paragraph 10.4 of the Tier 3 Standard;</li> <li>• AASB 17 <i>Insurance Contracts</i>, in relation to insurance contracts issued by the entity;</li> <li>• AASB 119 <i>Employee Benefits</i>, in relation to obligations arising under a defined benefit plan; and</li> <li>• AAS 141 <i>Agriculture</i>, in relation to biological assets except for bearer plants, and agricultural produce at the point of harvest.</li> </ul>

## Section 2: Financial Statement Presentation

### Simplifications

- ✓ Simplification of drafting and language

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Tier 2 reporting requirements set out the fair presentation requirements of financial statements that comply with Australian Accounting Standards, including AASB 1060, and what constitutes a complete set of financial statements. A complete set of financial statement is comprised of:</p> <ul style="list-style-type: none"> <li>• a statement of financial position as at the reporting date;</li> <li>• either:               <ul style="list-style-type: none"> <li>○ a single statement of profit or loss and other comprehensive income for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining profit or loss and items of other comprehensive income; or</li> <li>○ a separate statement of profit or loss and a separate statement of comprehensive income;</li> </ul> </li> <li>• a statement of changes in equity for the reporting period;</li> <li>• a statement of cash flows for the reporting period; and</li> <li>• notes, comprising material accounting policy information and other explanatory information.</li> </ul> <p>The information presented in the financial statements is presented in the entity's presentation currency.</p>	<p>Consistent with Tier 2, except that the Tier 3 Standard:</p> <ul style="list-style-type: none"> <li>• refers to the statement of profit or loss and other comprehensive income as a statement of financial performance; and</li> <li>• the amounts in the financial statements must be presented in Australian dollars.</li> </ul>

## Section 3: Statement of Financial Position

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of presentation
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Tier 2 reporting requirements set out the information that is to be presented in the statement of financial position or in the notes to the financial statements and how it should be presented, with the flexibility to present additional information where relevant.</p> <p>Entities can present assets and liabilities as current or non-current in the statement of financial position, or they can use a liquidity presentation if it provides information that is reliable and more relevant.</p> <p>When assets and liabilities are presented as current or non-current, they are classified as current if (among other factors) they are expected to be realised, sold or consumed (for current assets) or settled (for current liabilities) within the entity's normal operating cycle. A normal operating cycle is the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, and is assumed to be twelve months when the normal operating cycle is not clearly identifiable.</p> <p>Entities are also required to disclose, either in the statement of financial position or in the notes, information about each class of share capital, including the number of shares authorised, issued and whether fully paid.</p>	<p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements except for simplified language and including more guidance in relation to offsetting requirements, and except that:</p> <ul style="list-style-type: none"> <li>• they do not contain the liquidity presentation for presenting assets and liabilities;</li> <li>• assets and liabilities are classified as current or non-current without reference to an operating cycle, and generally based on a twelve-month period;</li> <li>• Tier 3 entities are not required to disclose, when comparative amounts are reclassified, the nature, the amounts of items affected and the reason for reclassification as would be required by AASB 1060; and</li> <li>• Tier 3 entities are also required to disclose a description of their primary purpose or mission.</li> </ul> <p>The Tier 3 reporting requirements do not require an entity with share capital to disclose distributions of dividends or details of share capital, such as the number of shares authorised, issued and whether fully paid.</p>

## Section 4: Statement(s) of Financial Performance

### Simplifications

- ✓ Simplification of presentation

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Tier 2 reporting requirements set out the information that is to be presented in the statement of profit or loss and other comprehensive income or in the notes to the financial statements and how it should be presented, with the flexibility to present additional information where relevant.</p> <p>A change between the single-statement approach and the two-statement approach (in either direction) is considered a change in accounting policy in accordance with AASB 108 <i>Basis of Preparation of Financial Statements</i>.</p>	<p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements except for simplified language and except that:</p> <ul style="list-style-type: none"><li>• a change between the single-statement approach and the two-statement approach (in either direction) is not a change in accounting policy;</li><li>• they omit some minimum line items such as the total of the post-tax profit or loss of a discontinued operation and reversal of impairment of assets in the discontinued operation; and</li><li>• they allow an analysis of expenses classified based on the nature of expenses, the function of expenses or a mixed presentation.</li></ul>

## Section 5: Statement of Changes in Equity and Statement of Income and Retained Earnings

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Omission of uncommon requirements/ topics
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Tier 2 reporting requirements set out the information that is to be presented in the statement of changes in equity and how it should be presented.</p> <p>Tier 2 reporting requirements also allow an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.</p>	<p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements except:</p> <ul style="list-style-type: none"> <li>• they omit the requirements to disclose dividends declared and paid or payable for the period;</li> <li>• they exclude the reconciliation between the carrying amount at the beginning and the end of the period of the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners, showing separately issues of shares and treasury share transactions during the period; and</li> <li>• they do not refer to dividend payments as one of the changes to equity during the period in which an entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and a statement of changes in equity.</li> </ul>

## Section 6: Statement of Cash Flows

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of presentation

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>In a statement of cash flows, cash flows are classified as either operating, investing or financing cash flows.</p> <p>Cash flows from operating activities may be presented using either the direct method or the indirect method (reconciliation from net profit).</p> <p>An entity is required to present the components of cash and cash equivalents and to present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial position, unless the amount of cash and cash equivalents is identical in both statements.</p>	<p>Tier 3 reporting requirements are consistent with Tier 2 requirements except for some NFP tailoring of language and</p> <ul style="list-style-type: none"> <li>• they permit entities to present cash flows from investing activities and financing activities either separately or together. They also include some NFP examples of cash flows from operating and other activities;</li> <li>• they do not include the requirement to provide a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial position if the cash and cash equivalents presented in the statements are different; and</li> <li>• they do not include guidance or disclosure requirements about supplier finance arrangements.</li> </ul>

## Section 7: Notes to the Financial Statements

**Simplifications**  
✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Notes contain information in addition to that presented in the statement of financial position, the statement of profit or loss and other comprehensive income (if presented), the combined statement of income and retained earnings (if presented), the statement of changes in equity (if presented) and the statement of cash flows. The Tier 2 reporting requirements also require note disclosure of audit fees and imputation credits.</p>	<p>The Tier 3 reporting requirements are consistent with Tier 2 requirements except they do not require disclosure of imputation credits.</p>

## Section 8: Consolidated and Separate Financial Statements

### Simplifications

- ✓ Provision of accounting policy choice
- ✓ Simplification of R&M requirements

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Tier 2 reporting requirements require an entity to determine the nature of its relationships with other entities based on the requirements of AAS (i.e., whether the entity is a parent, an investor in an associate or a joint venture, or a joint operator).</p> <p>Where an entity controls other entities, consolidated financial statements must be prepared (unless it meets the conditions under specified exemptions). A parent entity may elect to present separate financial statements in addition to the consolidated financial statements. Separate financial statements may also be prepared by an investor that does not have an investment in subsidiaries, in addition to its financial statements. Where an entity prepares separate financial statements, its investments in subsidiaries, associates or joint ventures are measured at either:</p> <ul style="list-style-type: none"> <li>• cost;</li> <li>• in accordance with AASB 9 (at fair value through profit or loss ('FVTPL') unless it makes an irrevocable election to measure at fair value through other comprehensive income ('FVTOCI'); or</li> <li>• using the equity method.</li> </ul> <p>The same measurement method is required for each category of investment.</p>	<p>The R&amp;M and disclosure requirements differ depending on whether an entity determines the nature of its notable relationship entities and elects to prepare consolidated financial statements (if the entity identifies its subsidiaries) or classifies its investments as notable relationship entities and measures those investments as a single class at cost, fair value or under the equity method of accounting.</p> <p>For a parent entity, the Tier 3 reporting requirements allow an accounting policy choice between preparing consolidated financial statements and preparing separate single-entity financial statements, with disclosures of its notable relationship entities.</p> <p><b>Consolidated financial statements</b></p> <p>The consolidation procedures are consistent with Tier 2 requirements, with simplified disclosures compared with Tier 2. A parent entity may present separate financial statements in addition to its consolidated financial statements. Investments in subsidiaries, associates, and joint ventures are measured in these separate financial statements at cost, fair value, or under the equity method. The same measurement method must be applied for entities in the same class, but an entity may elect different measurement methods for different classes.</p> <p><b>Separate financial statements</b></p> <p>Entities that prepare separate/single-entity financial statements classify their investments in notable relationship entities, which are entities over which the reporting entity has at least significant influence. The determination of whether significant influence exists is consistent with Tier 2 requirements in AASB 128 <i>Investments in Associates and Joint Ventures</i>. An entity that determines it has a notable relationship is not required to determine the nature of that relationship (e.g. subsidiaries, associates, joint ventures or joint operations) and must measure its investments in notable relationship entities as a single class at:</p> <ul style="list-style-type: none"> <li>• cost;</li> <li>• fair value through profit or loss (unless the entity makes an irrevocable election to measure changes in fair value through other comprehensive income at initial recognition); or</li> <li>• using the equity method; and</li> </ul>

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|  | <ul style="list-style-type: none"><li>• disclosures are required about notable relationship entities, including their name, a description of their primary purpose and the notable relationship entity's relationship with the reporting entity.</li></ul> |
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## Section 9: Accounting Policies, Estimates and Errors

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p><b>Changes in accounting policies</b></p> <p>An entity can change its accounting policy only if the change is required by an AAS or results in financial statements that provide reliable and more relevant information about the effects of transactions, other events or conditions. Unless it is impracticable to determine either the period-specific effects or the cumulative effect of a voluntary change in accounting policy, the change in accounting policy is applied retrospectively by adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy has always been applied.</p> <p><b>Correction of prior period errors</b></p> <p>Material prior period errors are corrected retrospectively by restating comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented by restating the opening balance of the earliest period presented</p>	<p><b>Changes in accounting policies</b></p> <p>Similar to Tier 2 reporting requirements, an entity can change its accounting policy only if the change is required by an AAS or results in financial statements that provide reliable and more relevant information. Voluntary changes in accounting policies are accounted for following a modified retrospective approach, which adjusts the opening balances of affected assets, liabilities and items of equity of the current reporting period for the cumulative effect of the change, but comparative information is not amended. However, when it is impracticable to determine the full cumulative effect for prior periods, the opening balances of the current reporting period for affected assets, liabilities and items of equity are adjusted to reflect prior period effects from the earliest date practicable. To align with the modified retrospective approach, Tier 3 reporting requirements do not require entities to disclose the amount of the adjustment for each financial statement line affected for each prior period presented nor in the aggregate for periods before those presented.</p> <p><b>Correction of prior period errors</b></p> <p>The Tier 3 reporting requirements are consistent with Tier 2 reporting requirements.</p>

## Section 10: Financial Instruments (Basic financial instruments)

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures
- ✓ Omission of uncommon topics/ requirements

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p><b>Scope of requirements</b> All financial instruments</p> <p><b>Initial measurement</b> Generally, financial instruments are initially measured at fair value adjusted for, in the case of a financial asset or financial liability not at fair value through profit or loss ('FVTPL'), transaction costs.</p> <p><b>Classification</b> Financial assets and financial liabilities are classified into specified categories. Some financial instruments that meet the definition of a financial liability are classified as equity. The liability and equity components of a compound financial instrument are recognised and measured separately.</p> <p><b>Financial assets – subsequent measurement</b> Financial assets meeting both a business model test and a solely payments of principal and interest ('SPPI') test are subsequently measured at amortised cost using the effective interest method. A financial asset that meets both a business model test (including selling financial assets) and SPPI test or is a qualifying equity instrument may be measured at FVTOCI. Other financial assets, including derivatives, are measured at FVTPL.</p> <p><b>Financial liabilities – subsequent measurement</b> Financial liabilities that are held for trading (including derivatives), or are designated into the category, are measured at FVTPL. In general, other financial liabilities are measured at amortised cost using the effective interest method. Specific requirements apply to financial instruments such as financial guarantee contracts. Financial guarantee contracts are measured at the higher of the expected</p>	<p><b>Scope of requirements for basic financial instruments or other financial instruments commonly held by Tier 3 entities</b> The Tier 3 reporting requirements specify the following as basic financial instruments or other financial instruments commonly held by Tier 3 entities:</p> <ul style="list-style-type: none"> <li>• cash and cash equivalents;</li> <li>• trade and other receivables ('debtors');</li> <li>• security bonds (e.g. residential bonds);</li> <li>• term deposits;</li> <li>• government and listed corporate bonds;</li> <li>• units held in managed investment schemes, unit trusts and similar investment vehicles;</li> <li>• ordinary shares and non-convertible preference shares held in listed and unlisted entities, including preference shares redeemable for a known amount of cash or the cash equivalent of their share of the investee's net assets;</li> <li>• trade and other payables ('creditors'); and</li> <li>• loans.</li> </ul> <p>Loans may be amounts borrowed or amounts lent. The loan may be provided on interest-bearing or interest-free terms, or on terms that create leverage.</p> <p><b>Initial measurement</b></p> <ul style="list-style-type: none"> <li>• Financial assets and financial liabilities are initially measured at fair value, excluding transaction costs;</li> <li>• However, concessional loans are initially measured at the transaction price rather than fair value;</li> <li>• Debtors are measured at the transaction price rather than fair value, excluding amounts collectible on behalf of third parties (eg goods and services tax); and</li> <li>• Transaction costs are expensed immediately.</li> </ul>

credit loss allowance and the instrument's fair value less any income subsequently recognised.

**Interest income/expense**

Interest income and expenses are calculated based on the effective interest method.

**Impairment**

Impairment of financial assets measured at cost or FVTOCI is recognised and measured based on calculating a probability-weighted estimate of credit losses over the expected life of the financial instrument.

**Derecognition**

A financial asset is derecognised when either the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred. Criteria apply to determining when a financial asset is transferred in a manner that qualifies for derecognition, including whether the entity has any continuing involvement in the transferred financial asset.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Some modifications or exchanges of financial liabilities are not treated as a derecognition of the original financial liability.

**Hedge accounting**

Hedge accounting is permitted. Conditions apply.

**Embedded derivatives**

Certain embedded derivatives must be recognised and measured separately.

**Subsequent measurement**

- Financial assets held to generate both income and a capital return for the entity (including all equity instruments) are measured at FVTPL unless the entity makes an irrevocable election on initial recognition of the first asset in a class of financial assets to present changes in fair value of that class in other comprehensive income. However, an entity discontinues measuring an investment in an unlisted equity instrument at fair value when the variability in the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed. Such instruments are measured at cost less any accumulated impairment losses. An entity shall resume fair value measurement of these instruments when the condition is no longer relevant;
- All other financial assets are measured at cost less any accumulated impairment losses; and
- All financial liabilities are measured at cost.

**Interest income/expense**

Interest income and interest expense are calculated by reference to the instrument's contractual interest rate.

**Impairment**

Impairment of financial assets measured at cost is recognised when there is objective evidence of impairment, primarily that it is probable that the carrying amount will not be collectible.

**Derecognition**

For financial assets – derecognition occurs when either the contractual rights to the cash flows from the financial asset expire or are settled, or the entity otherwise loses control of the asset.

For financial liabilities – derecognition occurs when the obligation is extinguished. A modification of the terms of a financial liability, or an exchange of a debt instrument for a different debt instrument, is treated as an extinguishment of the original financial liability and the recognition of a new financial liability.

**Hedge accounting**

Hedge accounting is not permitted.

**Embedded derivatives**

Tier 3 entities shall not separately recognise embedded derivatives.

**Scope of requirements for complex and not commonly held financial instruments**

An entity is required to apply the R&M requirements of AASB 9 and other applicable Australian Accounting Standards for the following financial instruments:

- unlisted purchased debt instruments (e.g. unlisted corporate bonds and unlisted convertible notes);
- acquired equity instruments other than ordinary shares and non-convertible preference shares;
- financial guarantee contracts; and
- derivative financial instruments (e.g. interest rate swaps and forward exchange contracts).

## Section 11: Fair Value Measurement

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplified measurement requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. AASB 13 <i>Fair Value Measurement</i> establishes a fair value hierarchy (AASB 1060 does not), categorising the inputs to valuation techniques used to measure fair value into three levels. This approach allows an entity to measure fair value at an amount that is appropriate in the circumstances by maximising the use of relevant observable inputs and minimising the use of unobservable inputs.</p> <p>A fair value measurement of a non-financial asset takes into account the asset's highest and best use. Tier 2 requirements include NFP modifications that provide guidance to public sector entities on assessing the financial feasibility of a use of a non-financial asset not held primarily for its ability to generate net cash inflows. There is also a practicable expedient for the public sector NFP entity on when to consider whether an asset's highest and best use might differ from its existing use. Currently, there are no disclosures required about the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety.</p>	<p>The Tier 3 requirements are consistent with Tier 2 requirements except for simplifying the language and do not include guidance on a fair value hierarchy. In individual sections relating to property, plant and equipment, investment property, inventories, intangible assets and financial instruments, fewer disclosures are required for entities that elect to measure those assets at fair value.</p>

## Section 12: Inventories

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Provision of accounting policy choice
- ✓ Fewer disclosures
- ✓ Additional disclosures supplementing simplified R&M requirements

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Inventory held for sale is measured at the lower of cost and net realisable value and inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.</p> <p>Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. However, if inventories were acquired for significantly less than fair value principally to enable the entity to further its objectives (e.g. donated inventories), cost is measured as current replacement cost (which can be subject to a practical expedient election based on an assessment of materiality).</p> <p>When inventories held for sale are sold, or inventories held for distribution are distributed, the carrying amount is recognised as an expense.</p> <p>The net realisable value of inventory held for sale is reassessed in each subsequent reporting period. If an item of inventory is written down to net realisable value and the circumstances that caused that right down no longer exist, the amount of the write-down is reversed. The reversal is recognised in profit or loss.</p> <p>Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (including some inventories) are to be capitalised as part of the cost of the asset.</p>	<p><b>R&amp;M requirements</b></p> <p>The Tier 3 reporting requirements are consistent with Tier 2 requirements but with simplified language, except that Tier 3 reporting requirements:</p> <ul style="list-style-type: none"> <li>• include NFP examples of inventories;</li> <li>• include guidance on how to measure the cost of inventories of a service provider and of inventories held for distribution;</li> <li>• do not require consideration of the cost of inventories purchased on deferred settlement terms;</li> <li>• do not address how to account for the reversal of any previously recognised write-downs of inventories to net realisable value or for any loss of service potential;</li> <li>• do not contain guidance on joint products and by-products or the cost of agricultural produce harvested from biological assets;</li> <li>• permit but do not require the allocation of production overheads to inventories' cost of conversion, with the election required to be applied to all inventories produced by the entity;</li> <li>• require inventories to be assessed for potential impairment if they meet the impairment indicators set out in Section 22. Consistent with Tier 2 reporting requirements, inventories held for distribution are assessed for whether a loss of service potential has occurred. A loss of service potential is measured by reference to the cost or current replacement cost; and</li> <li>• allow donated inventory to be measured either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or its current replacement cost. For donated inventories initially measured at a cost of nil, no expense is recognised upon sale or distribution of the item.</li> </ul>

**Disclosure requirements**

Tier 3 reporting requirements contain fewer disclosure requirements than Tier 2 reporting requirements, except that if an entity elects to measure donated inventory at cost, it is required to disclose:

- a description of the donated asset and dependence on the donation;
- the class of assets that the donation relates to;
- terms of the donation arrangement, including any amounts owing to the donor at the reporting date; and
- restrictions on the use of the donated asset imposed by the donor.

## Section 13: Investments in Associates and Interests in Joint Arrangements

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplified measurement
- ✓ Provision of accounting policy choice
- ✓ Fewer disclosures
- ✓ Omission of uncommon requirement/ topic

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Generally, an investor would account for an investment in an associate or a joint venture using the equity method. However, except in limited circumstances, an investor that prepares separate financial statements can elect to account for its investments in associates and joint ventures either:</p> <ul style="list-style-type: none"> <li>• at cost;</li> <li>• in accordance with AASB 9; or</li> <li>• using the equity method as described in AASB 128.</li> </ul> <p>An investor is required to apply AASB 11 <i>Joint Arrangements</i> to account for joint operations.</p> <p>The equity method requires:</p> <ul style="list-style-type: none"> <li>• the investor to make any adjustments to the associate's financial statements necessary to reflect the investor's accounting policies;</li> <li>• the most recent available financial statements of the associates or joint venture are used by the entity in applying the equity method. The financial statements of the associate or joint venture must be of the same date as the financial statements of the entity unless impracticable. When the financial statement date of an associate or joint venture used in applying the equity method is different from that used by the entity, adjustments shall be made for the effects of significant transactions. The difference between the end of the reporting period of the associate and that of the investor shall not exceed three months;</li> <li>• that if the investor loses significant influence but the retained interest in the former associate or joint venture is a financial asset, the investor is required to measure the retained interest at its fair value on initial recognition as a financial asset in accordance with AASB 9;</li> </ul>	<p><b>R&amp;M requirements</b></p> <p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements, but with simplified language, except that:</p> <ul style="list-style-type: none"> <li>• for an investor that is not a parent entity, the entity may elect whether to account for their investments in associates or joint ventures at either cost, fair value or using the equity method (i.e. this election is available regardless of the type of financial statements the entity prepares). Where an entity elects the fair value model, changes in fair value are recognised in profit or loss, except an investor may make an irrevocable election, on the recording of its first investment in each class of assets, to recognise changes in fair value through other comprehensive income;<sup>2</sup></li> <li>• the equity method procedures differ from those in the Tier 2 reporting requirements as follows: <ul style="list-style-type: none"> <li>○ investments in associates and joint ventures are initially measured at the investor's share of the carrying amounts of the investee's assets and liabilities (instead of at the amount of consideration paid), and the investor's consideration/transaction price for the acquisition is measured by reference to the carrying amounts of the net assets given in exchange (instead of fair value);</li> <li>○ the difference between the transaction price and the investor's share of the carrying amount of the net assets of the investee is recognised directly in equity;</li> <li>○ transaction costs are expensed immediately rather than forming part of the consideration paid for the investment;</li> <li>○ the Tier 3 Standard does not contain guidance on non-monetary consideration paid for the associate or joint venture;</li> <li>○ the investor may, but is not required to, adjust the investee's financial statements to reflect the investor's accounting policies;</li> <li>○ impairment of investments in associates or joint ventures measured under the cost model is measured based on the incurred loss model; and</li> <li>○ the Tier 3 Standard omits the guidance for when an entity discontinues use of the equity method;</li> </ul> </li> </ul>

- that when an entity discontinues the equity method, the entity accounts for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities;
- that gains and losses resulting from ‘upstream’ and ‘downstream’ transactions between an entity and its associates or joint ventures are recognised in the entity’s financial statements only to the extent of the unrelated investors’ interests in the associate or joint venture; and
- that goodwill relating to an associate or a joint venture is included in the carrying amount of the investment, and amortisation of that goodwill is not permitted.

Accounting for joint arrangements follows the substance of the arrangement. An entity that has rights to the assets and obligations for the liabilities related to a joint arrangement is referred to as a joint operator. A joint arrangement whereby the parties have joint control of the arrangement, and have rights to the net assets of the arrangement, is referred to as a joint venture.

Pre- and post-acquisition dividends are accounted for differently. Pre-acquisition dividends are generally deducted from the cost of investment, and post-acquisition dividends are not accounted as income but instead reduce the carrying amount of the investment. In separate financial statements, post-acquisition dividends are recognised in profit or loss unless the entity elects to use the equity method, under which the carrying amount of the investment is reduced.

- there is no difference in treatment of pre- and post-acquisition dividends received from an investment, which are treated as income; and
- the Tier 3 Standard contains guidance on joint operations.

#### **Disclosure requirements**

Tier 3 reporting requirements generally contain fewer disclosure requirements than Tier 2 reporting requirements. However, where an investor measures investments in associates or joint ventures at cost, it must disclose information about each investment, including its name, a description of its relationship with the reporting entity and its primary purpose.

## Section 14: Investment Property

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Provision of accounting policy choice
- ✓ Simplification of recognition
- ✓ Additional disclosures supplementing simplified R&M requirements
- ✓ Fewer disclosures
- ✓ Omission of uncommon requirement/ topic

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Tier 2 requires classification of property as investment property where it is held to earn rentals or for capital appreciation, or both. Properties that are held to meet service delivery or administrative objectives are accounted for as property, plant and equipment. Investment property is initially measured at cost. NFP entities are required to initially measure the cost of investment property at fair value in accordance with AASB 13 where the property is acquired for significantly less than fair value principally to enable the entity to further its objectives, and to recognise related income in accordance with AASB 1058 <i>Income of Not-for-Profit Entities</i>.</p> <p>Subsequently, an entity can elect to measure all investment property at either:</p> <ul style="list-style-type: none"> <li>• cost less any accumulated depreciation and accumulated impairment losses; or</li> <li>• fair value through profit or loss.</li> </ul> <p>AASB 16 <i>Leases</i> applies to all leases including investment properties of a lessee. If a lessee applies the fair value model in AASB 140 <i>Investment Property</i> to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in AASB 140.</p> <p>Where the fair value of an investment property cannot be reliably measured on a continuing basis, the entire property (if owned by the entity) is accounted as property, plant and equipment under the cost model. Mixed-use properties are required to be accounted for separately (i.e. the portion held for investment purposes is accounted for separately from the portion held for operational use). However, where the portions</p>	<p><b>R&amp;M requirements</b></p> <p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements but with simplified language, except that:</p> <ul style="list-style-type: none"> <li>• Tier 3 reporting requirements do not require a lessee to account for the right-of-use assets for investment property;</li> <li>• Tier 3 reporting requirements do not include any borrowing costs in the cost of qualifying investment property. Instead, borrowing costs that are directly attributable to acquiring a Tier 2 qualifying asset are expensed as incurred;</li> <li>• donated investment property can initially be measured either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or its fair value as at the date of donation;</li> <li>• mixed-use properties are classified and accounted for as property, plant and equipment;</li> <li>• for self-constructed investment property, the cost does not need to include an allocation of depreciation of other assets used to construct the investment property;</li> <li>• impairment of investment property measured using the cost model is assessed based on limited indicators (see Section 22 below); and</li> <li>• no guidance is included for the reversal of impairment losses.</li> </ul> <p><b>Disclosure requirements</b></p> <p>Tier 3 reporting requirements contains fewer disclosures than Tier 2 reporting requirements, whereby they do not require the disclosure of commitments for repairs, maintenance, or enhancements for investment property. However, if an entity elects to measure at cost a donated investment property (whether nil, at a nominal amount or significantly discounted amount), it is required to disclose:</p> <ul style="list-style-type: none"> <li>• a description of the donated asset and dependence on the donation;</li> </ul>

<p>cannot be sold or leased separately, the entire property is classified as investment property only if the portion used for operational purposes is insignificant. Otherwise, the entire property is accounted for as property, plant and equipment.</p> <p>Requirements are specified for disposal of investment properties. An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses from disposals or retirements of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the property, and recognised in profit or loss.</p>	<ul style="list-style-type: none"><li>• terms of the donation arrangement, including any amounts owing to the donor at the reporting date; and</li><li>• restrictions on the use of the donated asset imposed by the donor.</li></ul>
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## Section 15: Property, Plant and Equipment

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Provision of accounting policy choice
- ✓ Additional disclosures supplementing simplified R&M requirements
- ✓ Fewer disclosures
- ✓ Omission of uncommon topic/ requirement

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Property, plant and equipment is initially measured at cost and subsequently measured at cost or using the revaluation model, less any accumulated depreciation and accumulated impairment losses (see Section 22 below). Any revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. Guidance on which asset's fair value is used for exchanges of assets is provided to measure the cost of the acquired asset, that is, if an entity is able to measure reliably the fair value of either the asset received or given up, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident. Non-current assets classified as held for sale shall not be depreciated further, and the entity must apply the requirements of AASB 5.</p> <p>'Cost' includes the purchase price and any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.</p> <p>An NFP entity is required to initially measure the cost of property, plant and equipment at fair value in accordance with AASB 13 where the asset is acquired at significantly less than fair value principally to enable the entity to further its objectives. The difference between the consideration paid and the fair value is recognised as income.</p> <p>An annual review of the residual value, useful life and depreciation method is required.</p> <p>Where the revaluation model is elected for subsequent measurement of property, plant and equipment, and an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to</p>	<p><b>R&amp;M requirements</b></p> <p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements but with simplified language, except that:</p> <ul style="list-style-type: none"> <li>• Tier 3 reporting requirements do not include borrowing costs in the cost of qualifying property, plant and equipment. Instead, borrowing costs that are a directly attributable cost of a Tier 2 qualifying asset are expensed as incurred;</li> <li>• donated property, plant and equipment can be measured either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or its fair value as at the date of donation;</li> <li>• for self-constructed property, plant and equipment, the cost does not need to include an allocation of depreciation of other assets used to construct the property, plant and equipment;</li> <li>• a review of the residual value, useful life and depreciation method is required only when there is an indication that there has been a significant change in the expected pattern of consumption of future economic benefits since the last annual reporting date or when one of the impairment indicators is present;</li> <li>• no guidance is included for the reversal of impairment losses; and</li> <li>• the Tier 3 Standard is silent on whether any surplus included in equity in respect of an item of property, plant and equipment may be transferred to retained earnings when the asset is derecognised.</li> </ul> <p><b>Disclosure requirements</b></p> <p>Tier 3 reporting requirements contain fewer disclosures than Tier 2 reporting requirements, except that if an entity elects to measure at cost donated property, plant and equipment (whether nil, at a nominal amount or significantly discounted amount), it is required to disclose:</p> <ul style="list-style-type: none"> <li>• a description of the donated asset and the dependence on the donation;</li> </ul>

which that asset belongs needs to be revalued simultaneously; however, a class may be revalued on a rolling basis provided revaluation is completed within a short period.

- terms of the donation arrangement, including any amounts owing to the donor at the reporting date; and
- restrictions on the use of the donated asset imposed by the donor.

## Section 16: Intangible Assets

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Provision of accounting policy choice
- ✓ Additional disclosures supplementing simplified R&M requirements
- ✓ Fewer disclosures
- ✓ Omission of uncommon topic/ requirement

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Expenditure on an intangible resource is recognised as an expense unless the item meets the definition of an intangible asset (i.e. it is identifiable, controlled by the entity and future economic benefits are expected) and the recognition criteria (i.e. it is probable that future economic benefits will flow to the entity and the asset's cost can be reliably measured).</p> <p>Internally generated brands, mastheads, publishing titles, customer lists and similar items are not recognised as intangible assets. However, other internally generated intangible assets are classified into whether they arise in a research phase or a development phase. Research expenditure is recognised as an expense. Development expenditure that meets certain criteria is recognised as an intangible asset.</p> <p>Intangible assets that meet the R&amp;M criteria are initially measured at cost. For a NFP entity, the cost of an intangible asset acquired for significantly less than fair value principally to enable the entity to further its objectives is initially measured at its fair value. Subsequently, an entity can choose whether to measure intangible assets using the cost model or, if fair value can be measured by reference to an active market, using the revaluation model.</p> <p>Intangible assets with a finite useful life are amortised and are subject to impairment testing. Indefinite life intangible assets are tested annually for impairment only.</p>	<p><b>R&amp;M requirements</b></p> <p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements but with simplified language, except:</p> <ul style="list-style-type: none"> <li>• all expenditures on internally generated intangible assets are expensed when incurred;</li> <li>• an entity accounts for all intangible assets as if they have a finite useful life. The useful life is based on either the period of any contractual or other legal rights or, if shorter, the period over which the entity expects to use the asset. If the intangible asset has an indefinite useful life, its useful life is based on management's best estimate but does not exceed ten years;</li> <li>• they require a review of the useful life, residual value and amortisation method only if a trigger event or indicator has occurred since the last annual reporting date; and</li> <li>• donated intangible assets can initially be measured either at their cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or their fair value as at the date of donation; and</li> <li>• the Tier 3 Standard provides no guidance on which asset's fair value is used to measure exchanges of assets.</li> </ul> <p><b>Disclosure requirements</b></p> <p>Tier 3 reporting requirements contains fewer disclosures than Tier 2 reporting requirements, for example, they does not require the disclosure of whether an independent valuer was involved if an intangible asset is stated at a revalued amount. However, if an entity elects to measure at cost a donated intangible asset (whether nil, at a nominal amount or significantly discounted amount), it is required to disclose:</p> <ul style="list-style-type: none"> <li>• a description of the donated asset and dependence on the donation;</li> <li>• terms of the donation arrangement, including any amounts owing to the donor at the reporting date; and</li> <li>• restrictions on the use of the donated asset imposed by the donor.</li> </ul>

## Section 17: Entity Combinations

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>An entity accounts for each business combination by applying the acquisition method in AASB 3 <i>Business Combinations</i> by:</p> <ul style="list-style-type: none"> <li>• identifying the acquirer using the guidance in AASB 10 <i>Consolidated Financial Statements</i>;</li> <li>• determining the acquisition date, i.e. the date when the acquirer obtains control of the acquiree; and</li> <li>• recognising and measuring the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their acquisition-date fair values (except non-controlling interest can be measured at the acquirer's proportionate share in the recognised amounts of the acquiree's identifiable net assets).</li> </ul> <p>In addition:</p> <ul style="list-style-type: none"> <li>• an acquirer may reacquire a right that was previously granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets. A reacquired right is an identifiable intangible asset recognised separately from goodwill;</li> <li>• an acquirer recognises contingent liabilities assumed in a business combination only if they are present obligations arising from past events whose fair value can be measured reliably; and</li> <li>• an acquirer recognises and measures goodwill or a gain from a bargain purchase determined as the difference between the consideration transferred and non-controlling interest in the acquiree over the fair value of the net identifiable assets.</li> </ul> <p>An acquirer subsequently measures or accounts for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination generally in accordance with other applicable AAS for those items. For example, goodwill is measured at the amount recognised at the acquisition date less any</p>	<p><b>R&amp;M requirements</b></p> <p>A Tier 3 entity is required to measure at their carrying amounts the assets, liabilities, and items of equity of the entity to be combined, as at the combination date. The combination date is the date of gaining control of the entity/operating unit. Where the date of gaining control is unclear, then a selected (i.e. estimated) date can be used as long as this date is unlikely to result in a significant difference to the financial performance and position of the entity compared with a range of other possible dates.</p> <p>However, if a major asset or liability had not been recognised in accordance with AAS, it shall be initially measured at its fair value at the combination date. The only exception to this is for:</p> <ul style="list-style-type: none"> <li>• any acquired unrecognised donated non-financial asset for which the acquiree had not paid any consideration in exchange; and</li> <li>• the entity paid a nominal or other significantly discounted amount and which was originally measured at 'cost'.</li> </ul> <p>Internally generated intangible assets acquired in an entity combination are not recognised.</p> <p>The carrying amounts of the acquiree's assets, liabilities and items of equity must reflect the acquirer's accounting policies when they are combined with those of the acquirer.</p> <p>Any difference between the carrying amount of the consideration paid and of the net assets recognised in a combination is recognised directly in equity. Tier 3 entities do not recognise goodwill or a gain from a bargain purchase.</p> <p><b>Disclosure requirements</b></p> <p>Tier 3 reporting requirements contain significantly fewer disclosures than Tier 2 reporting requirements. However, an entity is required to disclose the key judgements that the entity has made about the date it gains control of another entity/operating unit, if these judgments have a significant effect on the amounts recognised in the financial statements.</p>

accumulated impairment losses in accordance with AASB 136 <i>Impairment of Assets</i> .	
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## Section 18: Leases

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Additional disclosures supplementing simplified R&M requirements

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>A lessee is required to recognise a right-of-use asset and lease liability for leases other than for short-term leases and leases of low-value assets. For short-term leases and leases of low-value assets, an entity may elect to recognise the lease payments associated with the leasing arrangement as an expense on a straight-line basis over the lease term (or another systematic basis – conditions apply).</p> <p>A lessor classifies each lease as either a finance lease or an operating lease. The lessor in a finance lease derecognises the underlying asset and recognises in its place a lease receivable measured at its net investment in the lease. The lessor in an operating lease recognises lease payments as income on a straight-line basis (or another systematic basis – conditions apply).</p> <p>Lessees initially measure right-of-use assets at cost. However, NFP entities may elect to measure right-of-use assets on a class-by-class basis at initial recognition at fair value for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives (i.e. concessionary leases).</p> <p>For lessees, lease payments that vary with an index or rate reflecting general inflation are included in the measurement of the lease liability based on the index or rate at the commencement date, while subsequent changes in the index or rate do not affect the lease term but generally result in remeasurement of the lease liability.</p> <p>Guidance is provided on how to treat provisions in lease arrangements to adjust the lease payments for changes in the construction or acquisition costs of the lease property or for changes in some other measure of cost or fair value. Where a lease includes both land and building elements, a lessor assesses each element separately.</p> <p>Entities are required to separate lease payments from payments for services in a contract so that only amounts relating to the right to use an underlying asset are accounted for as lease payments, with service components recognised separately. However, AASB 16 <i>Leases</i> permits a lessee a practical expedient to elect not to</p>	<p><b>R&amp;M requirements</b></p> <p>Tier 3 reporting requirements do not require a lessor to distinguish between finance leases and operating leases. A lessee (lessor) recognises the lease payments (income) associated with the leasing arrangement (including concessionary leases) as an expense (income) on a straight-line basis over the term of the agreement unless another systematic basis is more representative of the time pattern of the consumption by the entity of the asset’s benefit. A lessee shall not separate the cost of services from lease payments.</p> <p>Lessees do not recognise a right-of-use asset or related lease liability. Consequently, lessees’ accounting under the Tier 3 reporting requirements is similar to the accounting under Tier 2 reporting requirements for concessional leases where the entity elects to measure concessional leases at cost.</p> <p>The Tier 3 Standard does not include requirements on the accounting for sale and leaseback arrangements or guidance regarding lease payments that vary with an index or rate reflecting general inflation.</p> <p><b>Disclosure requirements</b></p> <p>Both lessees and lessors are required to disclose information about the lease, such as a description of the underlying leased asset, future minimum lease payments under non-cancellable leases and a general description of the entity’s significant leasing arrangements. Where the lease arrangement contains significantly below-market terms and conditions principally to enable the lessee to further its NFP objectives, the entity is required to disclose information including the lessee’s dependence on the leased asset and the nature and terms of the lease.</p>

separate lease and non-lease components and instead account for the combined amount as a single lease component.

## Section 19: Provisions and Contingencies

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Provisions are recognised when:</p> <ul style="list-style-type: none"> <li>• an entity has a present obligation (legal or constructive) as a result of a past event;</li> <li>• it is probable that an outflow of economic benefits will be required to settle the obligation; and</li> <li>• a reliable estimate of the obligation can be made. Where the effect of the time value of money is material, the amount of provision shall be the present value of the expenditures expected to be required to settle the obligation.</li> </ul> <p>Contingent liabilities are not recognised, but information about a contingent liability is disclosed unless the possibility of settlement of the contingent liability is remote.</p> <p>Contingent assets are not recognised, but information about a contingent asset is disclosed if an inflow of economic benefits is probable.</p> <p>In extremely rare cases, disclosure of some or all of the information about provisions, contingent liabilities and contingent assets can be expected to prejudice seriously the position of the entity in a dispute. Where this is the case, the entity is not required to disclose the information; instead, it discloses the general nature of the dispute and explains why the specific information has not been disclosed.</p>	<p>The Tier 3 reporting requirements are consistent with Tier 2 requirements except for fewer disclosures, and:</p> <ul style="list-style-type: none"> <li>• do not require measurement of provisions to consider the present value of the expenditure expected to be required to settle an obligation. Instead, provisions are measured at the entity's best estimate of the undiscounted amount to be paid based on current information about conditions existing at the end of the reporting period;</li> <li>• for each class of provision, disclosure is not required for the expected amount and timing of any resulting payments. The disaggregation of provisions is limited to the other Tier 2 requirement to classify them into current and non-current portions. The Tier 3 reporting requirements also do not require a reconciliation of movements between the opening and closing balances for each class of provisions;</li> <li>• there is some brief guidance on firm commitments; and</li> <li>• there is no guidance on onerous contracts and a different example of a constructive obligation has been developed.</li> </ul>

## Section 20: Revenue

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures
- ✓ Omission of uncommon topics/ requirements

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>NFP entities are required to comply with AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 1058 when accounting for revenue and income.</p> <p>A contract is within the scope of AASB 15 if it is enforceable, there is a promise to transfer goods/services to an external party (a performance obligation), and the performance obligation is sufficiently specific. Revenue is recognised when (or as) the entity satisfies the performance obligation, i.e. when the promised goods or services are transferred.</p> <p>AASB 1058 is a residual standard covering all income streams not addressed by other AAS, such as transactions where the consideration to acquire an asset is significantly less than fair value, principally to enable an NFP entity to further its objectives.</p> <p>Except to the extent that the entity has an enforceable obligation to use a transferred financial asset to acquire or construct a recognisable non-financial asset to be controlled by the entity, AASB 1058 requires that income within its scope is recognised immediately in profit or loss. Income is equal to the excess of the initial carrying amount of an asset over the related amounts required to be recognised as liabilities or equity contributions.</p> <p>An entity is required to adjust the promised amount of consideration for the effects of time value of money if the timing of payments agreed to by parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.</p>	<p><b>R&amp;M requirements</b></p> <p>Revenue recognition for receipt of an asset is deferred when the entity and the transferor have a common understanding that the entity is to perform in a particular manner resulting in the related transfer or using up of that asset or other assets of the entity.</p> <p>Where the recognition of revenue is required to be deferred, revenue is recognised in profit or loss in the manner that faithfully represents the amount and pattern of the entity's satisfaction of the commitments (regardless of enforceability) relevant to the transaction. An entity applies judgment to determine when it satisfies the commitments relating to the transferred asset.</p> <p>Evidence that parties to a transaction have a common understanding includes written communication or oral representations between the entity and the transferor of the asset regarding the purpose for which an asset is to be transferred or used up, or the period over which the transferred asset is to be used.</p> <p>For all other revenue transactions, revenue is recognised upon initial recognition of the asset received.</p> <p>If assets are transferred to an entity with the common understanding that the assets will support the entity's operations over an unspecified time period, as a practical expedient, revenue is recognised simultaneously with initial recognition of the assets.</p> <p>Tier 3 reporting requirements do not require entities to account for implicit financing to a customer or include references to variable consideration in the initial measurement requirements for accounts receivable.</p> <p><b>Disclosure requirements</b></p> <p>Tier 3 reporting requirements have fewer disclosures than Tier 2 reporting requirements. An entity is required to disaggregate its total revenue for the period into categories that help users of its financial statements assess the nature and uncertainty of each type of revenue recognised. An entity is also required to disclose the total amount of deferred revenue obligations at the reporting date, showing current and non-current portions.</p>

<p>If the consideration promised in a contract is variable (e.g. discounts, rebates, refunds, credits), an entity shall:</p> <ul style="list-style-type: none"> <li>• estimate the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer; and</li> <li>• include variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved.</li> </ul> <p><b>Recognition of volunteer services</b></p> <p>An NFP entity may elect to recognise volunteer services, or a class thereof, at fair value if the fair value of those services can be measured reliably.</p>	<p><b>Recognition of volunteer services</b></p> <p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements for volunteer services but with simplified language and disclosure reductions.</p>
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## Section 21: Expenses

### Simplifications

- ✓ Simplification of drafting and language

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
Australian Accounting Standards do not include a standalone Standard dedicated solely to expenses; instead, requirements for the recognition and measurement of expenses are embedded within the relevant Standards that address specific transactions or activities.	Tier 3 reporting requirements are consistent with Tier 2 reporting requirements in that the requirements for the recognition and measurement of expenses are embedded within the relevant sections of the Tier 3 Standard that addresses specific transactions or activities. However, the Tier 3 Standard gives some guidance on what expenses are.

## Section 22: Impairment of Assets

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>An entity is required to determine whether there is an indication that a non-financial asset is impaired. If there is an indication that an asset is impaired, the entity shall estimate the recoverable amount of the asset.</p> <p>Some assets are required to be tested for impairment annually regardless of whether there is an indication of impairment (e.g. goodwill and indefinite-life intangible assets). Guidance is provided on identifying cash-generating units and goodwill impairment.</p> <p>An asset is impaired if its carrying amount exceeds its recoverable amount (i.e. the higher of its fair value less costs of disposal and its value in use), with the difference recognised as an impairment loss in profit or loss unless the asset is carried at a revalued amount in accordance with another AAS (in which case the impairment loss is treated as a revaluation decrease).</p> <p>If an impairment loss no longer exists because of a change in estimates used to determine the asset's recoverable amount, a reversal of impairment loss is recognised immediately in profit or loss unless the asset is carried at a revalued amount in accordance with another AAS (in which case the reversal is treated as a revaluation increase).</p> <p>Tier 2 reporting requirements require some disclosures on impairment such as the amount of impairment losses and reversals recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income in which those impairment losses and reversals are included, for certain class of assets.</p>	<p>Tier 3 reporting requirements require an entity to assess the possibility of an impairment of an asset subsequently measured at cost or deemed cost only when:</p> <ul style="list-style-type: none"> <li>• the asset has been damaged physically, or is a perishable item that has spoilt, or become obsolete; or</li> <li>• the entity has changed its strategy or been affected by a reduction in external demand for its goods or services, and in either case the asset's capacity to provide services or generate sales revenue might have been affected adversely as a result.</li> </ul> <p>If an impairment indicator exists, the entity shall identify whether the asset's carrying amount is impaired by determining whether it exceeds the asset's recoverable amount.</p> <p>The recoverable amount of an item of inventory (or group of similar items of inventory) is:</p> <ul style="list-style-type: none"> <li>• for inventories held for distribution – cost less loss of service potential. The loss of service potential is determined by reference to the cost or current replacement cost; and</li> <li>• for all other inventories the selling price less the costs to complete and sell.</li> </ul> <p>The recoverable amount of a non-financial asset other than inventory is the higher of the asset's fair value less costs of disposal and its value in use. However, Tier 3 reporting requirements contain a rebuttable presumption that the fair value less costs of disposal is the most appropriate measure of such a non-financial asset's recoverable amount.</p> <p>The Tier 3 Standard does not address how to account for the reversal of any previously recognised impairment losses, identifying cash-generating units and goodwill impairment.</p> <p>The Tier 3 disclosure requirements are consistent with Tier 2 disclosure requirements except they do not require disclosure of impairment losses for goodwill (goodwill is not recognised under Tier 3 reporting requirements – see Section 17 above).</p>

## Section 23: Employee Benefits

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Employee benefits are categorised as short-term, post-employment, other long-term and termination benefits. They may also be share-based payments. Different reporting requirements apply to each category. However, in general:</p> <ul style="list-style-type: none"> <li>• an expense is recognised when the employee has rendered the services entitling them to compensation, except where they form part of the cost of an asset;</li> <li>• amounts not expected to be settled within 12 months are discounted, even if the obligation is classified as a current liability;</li> <li>• the probability that an outflow of economic resources is required must be considered when measuring an employee benefit liability; and</li> <li>• specific disclosures about post-employment, other long-term and termination benefits are required.</li> </ul>	<p>Consistent with Tier 2 reporting requirements, under Tier 3 reporting requirements employee benefits are recognised as an expense when the employee has rendered the services entitling them to compensation, except where they form part of the cost of an asset.</p> <p>Outstanding employee benefit obligations are recognised as a liability, measured at the undiscounted amount of the employee benefits expenses, using current rates of pay without considering future pay increases.</p> <p>Tier 3 reporting requirements do not require entities to recognise a liability for employee benefit entitlements that, if unused during employment, would not be payable to employees when they depart the entity (therefore, obligations for non-vesting accumulating employee benefits would not be recognised unless the amounts are due and payable for leave taken).</p> <p>Tier 3 reporting requirements do not categorise employee benefits as either short-term benefits or long-term benefits for measurement or presentation purposes. For presentation purposes, they are separated only into their current and non-current portions.</p> <p>The Tier 3 Standard requires an entity to apply AASB 119, in relation to obligations arising under a defined benefit plan.</p>

## Section 24: Income Taxes

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>Current tax for the current and prior periods, to the extent unpaid, is recognised as a liability. If the amount already paid in respect of the current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.</p> <p>A deferred tax liability is recognised for all taxable temporary differences, with some exceptions. Temporary differences are differences between the carrying amounts of assets and liabilities and their tax base (i.e. the amounts attributable to assets and liabilities for tax purposes). A deferred tax asset is recognised for all deductible temporary differences to the extent it is probable that taxable profit will be available against which the deductible temporary differences can be utilised with some exceptions.</p>	<p>Income tax expense is recognised for the amount of income tax payable for the current period and any under- or over-estimate of income tax assessed for prior periods. The current period expense is based on, in descending order:</p> <ul style="list-style-type: none"> <li>• the entity's tax assessment for the period;</li> <li>• its tax return for the period; and</li> <li>• an estimate of the amounts to be included in the tax return for the period.</li> </ul> <p>A liability for income tax payable is recognised at the end of the reporting period and measured as the estimated amount of income tax that remains unpaid at the end of the reporting period.</p> <p>Deferred tax assets and liabilities are not recognised.</p>

## Section 25: Foreign Currency Translation

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>A foreign currency transaction is recognised initially in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.</p> <p>At the end of each reporting period:</p> <ul style="list-style-type: none"> <li>• foreign currency monetary items are required to be translated using the closing rate;</li> <li>• non-monetary items measured at historical cost in a foreign currency are required to be translated using the exchange rate at the date of transaction; and</li> <li>• non-monetary items measured at fair value in a foreign currency are required to be translated using the exchange rates at the date when the fair value was measured.</li> </ul> <p>Exchange differences are generally recognised in profit or loss in the period in which the differences arise.</p>	<p>Any foreign currency transaction is required to be translated into Australian dollars using the exchange rate at the transaction date, and monetary assets and liabilities are required to be translated using the exchange rate at the end of the reporting period. No guidance is provided on functional currency as the Tier 3 Standard requires all amounts to be presented in Australian dollars.</p>

## Section 26: Events Occurring after the Reporting Period

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
An entity is required to adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.	Tier 3 reporting requirements are consistent with Tier 2 reporting requirements, but with simplified language and disclosure reductions such as not requiring disclosure of the date when the financial statements were authorised for issue and who gave that authorisation.

## Section 27: Related Party Disclosures

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Fewer disclosures

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>An entity is required to disclose:</p> <ul style="list-style-type: none"> <li>• relationships between the parent and its subsidiaries, irrespective of whether there have been transactions between them;</li> <li>• the name of its parent and, if different, the ultimate controlling party;</li> <li>• key management personnel compensation; and</li> <li>• related party transactions, including the amount of the transaction and outstanding balances.</li> </ul> <p>An entity is not required to disclose information about related party transactions made with a government entity.</p>	<p>Tier 3 reporting requirements are consistent with Tier 2 reporting requirements, but with simplified language and disclosure reductions including the following:</p> <ul style="list-style-type: none"> <li>• an entity is not required to disclose key management personnel compensation; and</li> <li>• an entity is not required to disclose donations from a related party unless evidence indicates that the donations could influence the entity's activities or use of resources.</li> </ul> <p>In addition, Tier 3 reporting requirements do not provide a disclosure exemption for related party transactions made with a government entity.</p>

## Section 28: Transition to Tier 3 General Purpose Financial Statements

### Simplifications

- ✓ Simplification of drafting and language
- ✓ Simplification of R&M requirements
- ✓ Simplification of presentation

AASB Tier 2 (including Tier 1 R&M) requirements	AASB Tier 3 requirements
<p>AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> sets out the procedures that an entity must follow when it adopts AAS for the first time.</p> <p>AASB 1 contains mandatory exceptions (i.e. AASB 1 prohibits retrospective application of AAS in some cases where this would require judgement by management about past conditions after the outcome of a particular transaction is already known). AASB 1 also contains optional exemptions (i.e., AASB 1 grants optional exemptions from the general requirement of full retrospective application of AAS in force at the end of an entity's first AAS reporting period, e.g. a first-time adopter may elect not to apply AASB 3 to past business combinations).</p> <p>An entity is required to present in its first AAS financial statements:</p> <ul style="list-style-type: none"> <li>• two statements of financial position;</li> <li>• two statements of profit or loss and other comprehensive income;</li> <li>• two statements of cash flows;</li> <li>• two statements of changes in equity; and</li> <li>• related notes.</li> </ul> <p>When AASB 1060 was first issued, optional relief was provided to entities that transitioned to AASB 1060. The optional relief meant an entity was not required to:</p> <ul style="list-style-type: none"> <li>• restate comparative information or provide comparative information that was not provided in its most recent previous financial statements if the entity adopted AASB 1060 early; or</li> <li>• distinguish between the correction of errors and changes in accounting policies in the period of transition.</li> </ul>	<p>For first-time adopters of Tier 3 reporting requirements, an entity applies Section 28 of the Tier 3 Standard. Section 28 is generally consistent with Tier 2 reporting requirements, but with simplified language and fewer disclosure requirements, except that an entity:</p> <ul style="list-style-type: none"> <li>• may apply Tier 3 reporting requirements directly by applying a modified retrospective approach to resulting changes in accounting policies with the cumulative effects on prior periods recognised in the current period's opening retained earnings without restating information presented for the comparative period(s);</li> <li>• is not required to provide comparative information for new disclosures or distinguish corrections of errors and changes in accounting policies on transition to Tier 3 reporting requirements even if they do not early adopt Tier 3 reporting requirements;</li> <li>• that elects to prospectively apply Tier 3 reporting requirements to all entity combinations, shall cease the recognition of goodwill relating to combinations that occurred prior to the date of transition or the selected date;</li> <li>• may optionally present reconciliations of equity and profit or loss determined in accordance with the entity's previous financial reporting framework to its equity and profit or loss determined in accordance with Tier 3 reporting requirements; and</li> <li>• may optionally disclose the nature of each change in accounting policy in the first Tier 3 financial statements if the entity's most recent previous financial statements were special purpose financial statements.</li> </ul>



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### Website:

 [aasb.gov.au](https://aasb.gov.au)

### Email:

 [standard@aasb.gov.au](mailto:standard@aasb.gov.au)

### Postal Address:

PO Box 204  
Collins St West  
VIC 8007  
Australia



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